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The Consumer Trends REPORT

OFFICE OF CONSUMER AFFAIRS

Canada

The Consumer Trends REPORT

INDUSTRY CANADA RESEARCH PAPER

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Preface

A draft version of this report was presented at a national Symposium on Consumer Trends and Research organized by the Office of Consumer Affairs and held in Ottawa on June 3, 2004. The draft report served as a background and resource document for participants at that event. The symposium brought together experts on consumer research drawn from the academic community, business organizations, governments and consumer and other public interest groups to discuss current and future consumer trends and research priorities.

This version of the *Consumer Trends Report* incorporates some of the comments received from symposium participants and from the report's advisory committee. An Afterword at the end of this report provides some general observations made by symposium participants on research and analytical issues that future consumer trends reports might consider addressing. Please note that this report is largely based on data gathered during the autumn and winter of 2003–04.

As outlined in the Introduction that follows, the main purpose of the report is twofold. First, to provide a general overview of the current economic and marketplace circumstances that consumers face and their changing socio-demographic circumstances. Second, to provide a preliminary outline of the main research gaps that exist in our understanding of a rapidly changing and complex consumer landscape. We hope this report will provide those researchers interested in consumers and today's marketplace with some useful analytical data and encourage and sustain the enthusiasm of participants at the symposium to carry the research agenda forward.

Office of Consumer Affairs
Ottawa, November 2004

Contents

Acknowledgements iii

Preface v

Introduction 1

Significant change for consumers and the marketplace 2

Better data and more analysis needed 3

Good data and analysis are prerequisites for good public policy 4

Our approach to examining consumer trends 5

Who is a consumer? 6

Part 1: CANADIAN CONSUMERS IN A CHANGING ECONOMY 7

Chapter One: Key Macro-Economic Trends

Summary 9

1.1 A High Growth Economy 12

Research opportunities 17

1.2 Canada's Low Inflation Economy 17

Research opportunities 18

1.3 Regulatory Reform of Monopolies and Oligopolies 18

Research opportunities 21

1.4 A More Open Domestic Marketplace 21

Research opportunities 24

1.5 A Marketplace Transformed by Technology 25

Research opportunities 30

Chapter One References 31

Chapter Two: Consumers and Changing Retail Markets

Summary 35

2.1 The Changing Retail Market Structure 38

Research opportunities 44

2.2 The Increasing Use of Technology in Stores 45

Research opportunities 49

2.3 The Internet and the Consumer Marketplace 50

Research opportunities 56

2.4 Technology's Role in Changing Financial Services 56

Research opportunities 61

2.5 The Growing Presence and Changing Forms of Advertising 61

Research opportunities 69

Chapter Two References 70

Part 2: UNDERSTANDING TODAY'S CONSUMER 79

Chapter Three: Consumer Demographics

Summary 81
3.1 The Changing Age Structure of Canada's Consumers 83
    Research opportunities 87
3.2 Canada's Changing Households 87
    Research opportunities 91
3.3 The Changing Ethnic Composition of Canadian Consumers 92
    Research opportunities 94
3.4 Where We Live: The Geographic Distribution of Canadian Consumers 94
    Research opportunities 95
Chapter Three References 96

Chapter Four: Consumer Literacy and Education

Summary 99
4.1 Better Educated Consumers 100
    Research opportunities 104
4.2 Consumer Literacy Challenges 104
    Research opportunities 107
Chapter Four References 108

Chapter Five: Consumer Income

Summary 111
Consumer Income 112
    Research opportunities 117
Chapter Five References 118

Chapter Six: Consumer Assets

Summary 119
Consumer Assets 120
    Research opportunities 127
Chapter Six References 128

Chapter Seven: Consumer Debt

Summary 129
7.1 General Trends in Debt 130
    Research opportunities 141
7.2 Trends in Consumer Bankruptcies 142
    Research opportunities 144
Chapter Seven References 145

Chapter Eight: Consumer Net Worth

Summary 147

Consumer Net Worth 148

Research opportunities 161

Chapter Eight References 162

Chapter Nine: Consumer Spending

Summary 163

9.1 Overview of Household Spending 165

Research opportunities 168

9.2 Spending by Income Quintile 168

Research opportunities 170

9.3 Spending by Household Type 170

Research opportunities 175

9.4 Consumer Spending on Transportation 176

Research opportunities 182

9.5 Consumer Spending on Food 182

Research opportunities 187

9.6 Consumer Spending on Health Care 187

Research opportunities 194

Chapter Nine References 195

Conclusion: Making Sense of Consumer Trends

Major marketplace and economic trends 201

Social and economic change among consumers 202

The varying effect of social and economic change 203

The consumer trends research challenge 206

Afterword 209

Appendix: Technical and Methodological Issues 211

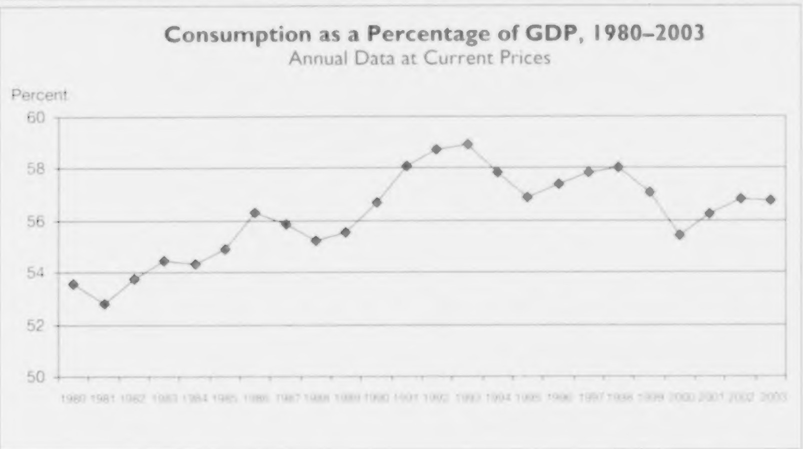
Introduction

The key to good public policy, particularly for something as complex as consumers in the marketplace, is the presence of good research and information. Without these, it is virtually impossible to develop appropriate policies, laws and regulations. The focus of this report is the need for better research and better data on the consumer and the consumer's place in the marketplace today.

Unfortunately, the current body of information and research is frequently not up to the task at hand, and often proves to be partial or out of date. More importantly, there are some important developments affecting consumers and the marketplace for which there is virtually no information or research. As a result, not only does the existing body of information and research need expansion and improvement, but much new work must also be done.

Why is this important? Well, perhaps the short answer is that virtually everyone is a consumer, from young children who pester their parents to buy the latest toy they have seen advertised on television, to seniors who are trying to sort out whether a new cell phone might be something useful for them and something they can afford. One thing is certain: consumers are a key driver of the market economy. As illustrated in Figure 1.1, consumer purchasing accounted for more than half of all economic activity in Canada in the past two decades. The degree of confidence consumers have in their ability to spend and manage debt can have a significant effect on overall demand in the economy, and in turn, on economic growth, job creation and investment.

FIGURE I.1


Consumption as a Percentage of GDP, 1980–2003
Annual Data at Current Prices

Source: Statistics Canada, CANSIM, series v646938 and v646937.

In addition to their very important role in supporting economic activity in Canada, consumers play a key role in making the economy function in an efficient and innovative fashion. Companies, in their search to become more efficient and to develop the new products and services demanded by knowledgeable consumers, are forced to become more innovative and competitive in the areas of product design and manufacture and in how goods and services are marketed, distributed and sold. As we will see, the key to consumers playing this role, supported by existing consumer protection laws, is their ability to understand the information and apply the skills needed to make effective choices.

Significant change for consumers and the marketplace

There can be little doubt that consumers are key players in the economy, but it is also clear that since the major innovations in consumer policy and legislation in the 1960s and 1970s, a great deal of change has taken place in both the marketplace for consumer goods and services, and in the circumstances of consumers themselves. For instance, consider the following:

- "Connected" consumers can use the Internet to equip themselves with detailed product and price comparison information well before they make a consumer purchase, an option that was not available prior to the 1990s.
- Increasing numbers of Canadians can now shop around to choose telephone and, in some provinces, energy suppliers; historically there existed only one choice offered by highly regulated public utilities.

- The retail marketplace has been transformed with a move to larger "big box" stores and the decline of the traditional department store, and a number of key retail sectors such as supermarkets and drugstores are dominated by a few large players.
- In the last decade, technology has revolutionized the way Canadians access and pay for goods and services. Automated banking machines have enabled Canadians to have access to their money, 24 hours a day, seven days a week, with no need to deal with a person.

Consumers are clearly interacting with a different marketplace than they were 20 years ago. But it is equally important to recognize that consumers have not remained static over this time. In fact, many important socio-economic trends have emerged within the population as a whole. Consumers' ability to take full advantage of the new marketplace is related to their socio-economic status, from possessing the right skills and resources, to having sufficient time, to make important decisions. Consider the following:

- While consumers' incomes (and wealth) have grown on the whole, they have also become more polarized over the last two decades, dramatically affecting the levels of discretionary purchasing power of various income groups.
- In today's marketplace, the ability to read complex documents, contracts and instructions is a key skill, but 40 percent of the Canadian population falls below the minimum desirable threshold of literacy.[1]
- Canadian households are more diverse and becoming smaller: the "married couple with two children" is less prevalent, with significant growth in the proportion of lone-parent families and senior households.
- Canadians are becoming much more culturally and linguistically diverse as a result of immigration.

Better data and more analysis needed

Despite the vast quantity of economic data available in Canada, many gaps in consumer research exist. Comprehensive and authoritative information on what has happened to consumers over the last two decades is often lacking.

There are some significant information sources on consumers and their activity in the marketplace, but these are often limited in what they can tell us. For example, the Conference Board of Canada's Index of Consumer Attitudes (also known as the consumer confidence index) provides a useful, but very general, indicator of Canadians' optimism regarding current economic conditions. However, by its very design, the index has limited potential to provide information on the underlying factors that shape consumers' behaviour in the marketplace; for example, what they are spending their money on, which of their needs are being met and how well, and which are not.

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[1] See Section 4.2 for information on the International Adult Literacy Survey, which assessed literacy tasks along five broad levels of literacy. Level 3 is considered the minimum desirable threshold of literacy skills.

Some consumer research gaps exist as a result of insufficient "consumer-centric" data being collected from any perspective. For example, one of the most significant consumer issues of the past two decades is the growing use of services. From 1986 to 1996, real average per-household consumption of goods dropped by 13.9 percent, but spending on services rose by 7.8 percent.[2] Services pose significant challenges and opportunities for consumers. On the plus side, they can provide innovative solutions to time-consuming and difficult tasks. But because services are intangible by their very nature they can change rapidly and are difficult to judge until they are consumed. Nevertheless it is widely acknowledged that comprehensive and timely data on the quantity and quality of services offered in the economy are unavailable at anything like the level of detail we have for the goods-producing sector of the economy.

In addition to the need for more and better data, we also need to know more about the consumer research work that is actually being conducted in Canada. For instance, there exists no authoritative inventory of consumer research or analytical work conducted in the public sector (federal or provincial/territorial). The fact that analytical work is carried out by small groups in a number of disparate government departments and agencies means that the normal informal networks that exchange information and intelligence on research are not very robust. The same is true in the academic, public policy think tank and business research communities. Consumer non-governmental organizations are somewhat better organized, and are more aware of what each group is undertaking in the way of research, but their level of research effort is relatively modest by international standards.

Unlike in the U.S. or the U.K., there is no Canadian academic journal devoted to consumer research issues, so there are few opportunities to exchange or showcase the results of consumer research. Further, no academic research funding programs on consumer issues exist, and there are no institutes or think tanks devoted to the subject. According to one expert in the field, there were only about a half dozen departments or units in Canadian universities in 2000 that taught consumer studies, down from about 14 in 1988.[3] The consequences of this situation for the training and development of analysts or researchers who could work in the field are obvious.

Good data and analysis are prerequisites for good public policy

With virtually every Canadian being a consumer, there are good reasons why research on the state of the consumer should be of wide popular interest. Equally important from a governmental perspective is that an area that has such broad and direct implications for the population as a whole needs to have good evidence on which to base policy. Without good data and analysis, good policy cannot be constructed, and the potential for inappropriate measures being taken increases.

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[2] Little, Don and Renée Béland. 1999. *Can I help you? The rise in household spending on services.* Statistics Canada 63-F002XPB. No. 21 (January 1999).

[3] Reported in Sue McGregor. 2000. *Status of consumer education in Canada*, paper presented at the Inaugural Colloquium on Consumer Protection: Globalization, Deregulation and Empowerment of Consumers (March 2000).

This latter point applies equally to the other main players, the non-governmental consumer movement and the business community. Without good data and analysis, consumer groups are less able to advocate consumers' interests in an effective and forceful way. Businesses have a direct interest in understanding not only changing consumer needs, but also the problems consumers encounter in the marketplace, in order to effectively offer the products and services consumers need, and to avoid business models and policies that are likely to alienate or disappoint their customers.

Our approach to examining consumer trends

This initial *Consumer Trends Report* takes a fairly straightforward economic and demographic approach to researching consumer issues. More precisely, the report looks at economic and socio-demographic data through a "consumer lens" to highlight how changes in the economy and marketplace, and in consumers themselves, have affected how individuals interact with the marketplace. Its scope of analysis is hence restricted to the principal social and economic trends. This was felt appropriate for a "first time" document whose emphasis should be on providing baseline economic and social data of relevance to consumer issues and on identifying where gaps exist in available data and research (see the Afterword for a brief review of some other analytical options for research work in this area).

The report is in two parts. The first, "Canadian Consumers in a Changing Economy," examines broad structural and technological trends that have occurred in the economy and the marketplace over the last two decades, in an attempt to answer the question "What marketplace changes are having a particularly significant impact on consumers?"

The second part, "Understanding Today's Consumer," presents more detailed social, demographic and economic data, in an attempt to answer the questions "How have the socio-economic circumstances of Canadian consumers changed over the past 20 years?" "How are these factors affecting what products and services consumers need from the marketplace?" and "How well are consumers able to interact with the marketplace in a way that meets their needs and protects their interests?"

Who is a consumer?

For the purposes of this report, a *consumer* is defined as an individual acquiring, consuming or using a good or service available from a private sector source, for personal use (individual or household). However, it is recognized that the scope of this definition is limited and that various stakeholders will approach the consumer interest within the context of their own mandates.

For example, focus group testing for the Canadian Consumer Information Gateway[4] revealed that Canadians see themselves as consumers:

- all the time ("We're all consumers, 24/7.");
- anywhere (using products at home or at the office);
- when purchasing something in the private sector (from everyday products, to utilities and renovations);
- when consuming government services (popular responses included health care and education); and
- even when they are not purchasing something (when faced with advertisements, when researching a product, when having to use a product warrantee, etc.).[5]

Furthermore, some definitions of *consumer* also include small businesses, since these individuals can face many of the same challenges as "ordinary" consumers.[6]

As we proceed through the report, two issues will become clear. First, many of the important changes taking place are not simply a function of what happens in the marketplace or in the socio-economic circumstances of consumers, but are a result of their interaction. Second, consumers are a diverse group and it is difficult to make generalizations about them. Their wants, needs and capabilities are often dramatically different, depending on their age, gender, social circumstances, place of residence and income. As a result, a marketplace opportunity for one group of consumers may be seen as a problem by another. Getting a fuller understanding of these differences will be one of the major challenges facing consumer research over the coming years.

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[4] The Canadian Consumer Information Gateway is an online central gateway to consumer information and services offered by more than 400 partners from Canada's governments and non-governmental organizations (**consumerinformation.ca**).

[5] "Concept and Needs Testing for the Canadian Consumer Information Gateway," prepared by DELTA MEDIA INC. and its Vision Research Subsidiary, for the Office of Consumer Affairs, Industry Canada, 2002.

[6] In 2000, one proposal in the then Ontario Ministry of Consumer and Commercial Relations' legislative consultations was to include individual small businesses in the definition of an Ontario consumer in some situations. Ultimately, however, this proposal did not have enough support and was not enacted.

Part 1

Canadian Consumers in a Changing Economy

CHAPTER

Key Macro-Economic Trends

Summary

1.1 A High Growth Economy

The Canadian economy has experienced a sustained period of strong economic growth since emerging from a recession in the early 1990s. This strong economic growth has produced a very healthy labour market and has translated, on average, into substantial gains in consumers' disposable income. However, a closer look at the data reveals that the recovery in income was led by affluent Canadians (who "drove up the average"), while other consumers have fared less well. The marketplace has adapted to the unique needs of a financially diverse group of consumers, raising different issues across the income scale. Compared to the mid-1980s, consumer spending has shifted away from goods towards services. This shift is associated with the need for consumers to have sufficient time and literacy skills to effectively participate in a more complex, information-based marketplace. **Research opportunities** include analysis of business responses to income polarization, particularly with respect to the various risks and choices facing consumers. The growing importance of services in the consumer marketplace also merits research attention, as problems with services consistently rate among the top consumer complaints.

1.2 Canada's Low Inflation Economy

Canada has experienced a sustained period of low inflation and low interest rates. Consumers managing a budget on fixed incomes have particularly benefited from Canada's low inflation environment. Low interest rates have significantly reduced the costs associated with borrowing, which is reflected in a debt-to-income ratio exceeding 100 percent and an historically low saving rate. **Research opportunities** include exploring how vulnerable consumers would be to a sudden rise in interest rates. In particular, research could focus on the potential impact of higher rates on both the residential mortgage and short-term consumer credit markets, and on retirement incomes.

1.3 Regulatory Reform of Monopolies and Oligopolies

In the last two decades, there has been a trend towards regulatory reform in monopoly and oligopoly markets. Regulatory reforms have increased consumer choice, and in many cases have also lowered costs for Canadians. However, new information-processing demands have been placed on consumers. Questions have been raised about the ability of consumers to voice their concerns in newly competitive marketplaces. **Research opportunities** include the need to gather good data on the impact of these reforms on consumers, such as their impact on prices and the entry of viable competitors. Information will likely also be required on service quality and innovation, affordability, and the ability of consumers to understand and navigate these new markets, and to access redress.

1.4 A More Open Domestic Marketplace

Trade — particularly North American trade — has expanded, and is crucial to Canada's economy. It offers a number of potential benefits to Canadian consumers, including a more diversified supply of products. Ongoing international trade negotiations, however, are now touching on consumer issues; for example, on how to appropriately harmonize existing consumer protection frameworks.

The complexity of trade agreements poses challenges to the non-governmental consumer advocacy sector, and to interested individual consumers, because their resources are often too limited to undertake in-depth analysis. **Research opportunities** include addressing the gaps/constraints with respect to data on consumers and trade, and exploring analytical methodologies that would allow for a better understanding of trade information from a consumer perspective. Little information is available on the relationship between merchandise imports and the scope and nature of choice for Canadian consumers, nor is there much information on the impact of imports on prices. In-depth case studies in newly open consumer service sectors may also be required, as there is little analysis currently available on the impact on consumers of new suppliers entering domestic markets.

1.5 A Marketplace Transformed by Technology

Technological change — by its pace and scope — is transforming the marketplace. Technology has increased consumer choice, both in the form of entirely new products and services and in terms of a more diverse price/quality mix. But the challenge of keeping up with new technological applications and product information is affecting consumers' ability to navigate the marketplace. Rapid product turnover raises consumer issues such as the trouble and expense of upgrades, the risks borne by early adopters, and the potential for confusion — and costs — related to competing standards. The scope of technological change (e.g. digital revolution) is also raising a number of issues with respect to the traditional consumer protection framework. **Research opportunities** include analyzing the consequences of the pace of technological change; assessing the costs to consumers against the value of new product versions; and assessing consumers' technological literacy. It will also be important to ensure that the consumer perspective is well understood as complex regulatory frameworks are brought in line with technological changes.

Chapter One
Key Macro-Economic Trends

Identifying the broader economic context in which Canadians buy goods and services, and how that context has changed over the past two decades, is a natural starting point for understanding the circumstances of today's consumers. In macro-economic terms, consumers depend on economy-wide outputs (the goods and services produced by, or imported into, the economy) and their own income, to engage in consumption: outputs provide products for consumers to buy, and income gives consumers power to buy them. The general performance of the economy, therefore, has important implications for consumers because a vibrant economy requires the production of a wide range of competitively priced goods and services as well as plentiful, stable and well-paying jobs.

Limitations of GDP

GDP is a measure of the monetary value of market transactions within an economy (United Nations 1993; note that this is just one method of calculating GDP). However, GDP is not an attempt to measure all activities within an economy to which a value can be assigned; nor is it a measure of a nation's well-being. For example:

GDP only includes market activities (i.e. goods and services with monetary value placed on them). Therefore, many sources of valuable activities, such as volunteer work or unpaid housework, are not included in GDP. Furthermore, a number of factors that increase the well-being of a nation (peace and security, the elimination of violence and injustice, and equality of opportunity) are not considered in GDP (Okun 1971).

GDP does not account for externalities. For example, the production of a good may cause environmental damage. When this product is sold, its selling price is included in GDP, while the cost associated with the environmental damage is not.

GDP includes market transactions related to events that reduce Canadians' well-being. For example, rebuilding homes lost during the 2003 forest fires in British Columbia will increase the value of Canada's GDP. Of course, the fire, itself, did not increase the well-being of those who lost their homes.

1.1 A High Growth Economy

Canada's economy has performed well over the last two decades. Real gross domestic product (GDP) has been strong since 1980, growing every year except 1982 and 1991, and reaching highs of more than 5 percent in 1984, 1999 and 2000.[7]

Since 1980, the economy has moved through two business cycles, with two recessions — one in the early 1980s and the other in the early 1990s. The most significant distinction between these two economic slowdowns is that, during the latter, growth in consumer spending did not actually fall. Easy access to consumer credit allowed Canadians to continue spending and, as a result, the "current expansion in consumer spending is the most leveraged in the post-war era" (Tal 2002, 14). (The implications of this continued growth in spending, largely supported by debt, are discussed in Part 2 of this report.)

A healthy labour market and high incomes for some

While displaying some signs of weakness in mid-2003, Canada's labour market has been strong in recent years, and has continued to play a key role in boosting average real incomes for consumers since the late 1990s (Department of Finance Canada 2002).[8] For example, 1 419 500 net full-time jobs were created in Canada in the last half of the 1990s, compared to only 125 300 in the first five years of that decade. Furthermore, with the exception of 2001, more than 300 000 net full-time jobs were created each year in Canada between 1997 and

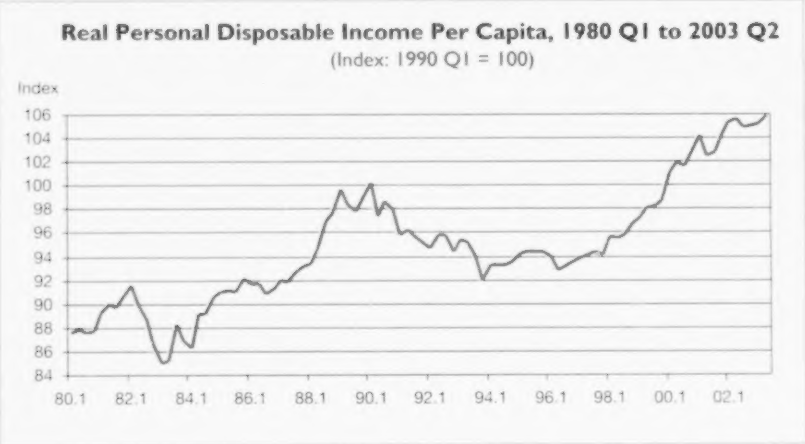
---

[7] Growth in GDP was 4.97 percent in 1998. Source: Statistics Canada, CANSIM, series v3860085.

[8] The *Economic and Fiscal Update* (Department of Finance Canada 2002) also notes a positive contribution to personal disposable income from strong productivity growth and substantial tax cuts by both federal and provincial governments.

2002. This strong job performance is reflected in income statistics: Statistics Canada national accounts data reveal that personal disposable income per capita has been moving strongly upward since 1996 (see Figure 1.1).

FIGURE 1.1



Note: Personal disposable income converted to real dollars using the chain price index for personal expenditures on goods and services.

Source: Office of Consumer Affairs calculations based on Statistics Canada data (CANSIM, series v498186 and v1997738).

And yet, while the strength of the labour market has boosted average real incomes, this performance masks some important variations within the Canadian population. For example, microdata reveal that the strong recovery in real after-tax income during the late 1990s was led by high-income earners. In 2001, real average after-tax income for families in the highest income quintile exceeded that for 1989[10] by 16.8 percent. Families in the lowest and second lowest quintiles only made corresponding gains of 2.3 percent and 2.4 percent, respectively. In essence, high-income families enjoyed substantial benefits from economic growth, while other groups — including lone-parent families and recent immigrants, who tend to find themselves at the low end of the income scale — did not fare so well. (These trends are explored in more detail in Part 2 of this report.)

The marketplace adapts to a financially diverse group of consumers

The changes in disposable income described above have had repercussions on the marketplace. In the area of housing, for example, there is a general trend among high-income earners to acquire large homes with considerable amenities, such as improved storage areas, double garages and two or more bathrooms.[11] And more Canadians own their homes than in the past: the Canada Mortgage and Housing

The relationship between productivity and consumers

Building a fair, efficient and competitive marketplace is expected to bring broad economic benefits in the form of higher productivity. Productivity, in turn,

> is roughly speaking a measure of how effectively the resources of an economy are translated into the production of goods and services. Over long periods of time, productivity is the single most important determinant of a nation's living standard or its level of real income (Harris 1999, 3).

Productivity gains raise the standard of living when they are either passed on to workers via higher wage increases or to consumers via greater declines (or lower increases) in prices.[9] An illustration of this relationship is that a "faster rate of productivity growth in the goods sector relative to the service sector is an important contributor to the greater rise in services prices" (Gagnon et al. 2003, 7). There are, however, other ways in which productivity growth can enhance consumer well-being, where:

> too often advocates of a productivity agenda highlight only its importance for our material standard of living, giving such an agenda an unnecessarily narrow political appeal. The additional wealth created by productivity growth can be taken in different forms: private consumption, enhanced social programs, lower taxes, more leisure time, or some combination of all four of these. In effect, productivity growth provides more opportunity for society (Sharpe 2004, 24).

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[9] A Statistics Canada study over the period 1961–99 concluded that "productivity gains [are primarily] reflected in lower relative output prices for consumers, not higher relative wage increases for workers." See Statistics Canada 2001.

[10] The year with the highest after-tax income before the recession of the early 1990s.

[11] For example, homes built from 1996 to 2000 were about 25 percent larger than those dating from 1961 to 1977. Source: CMHC 2003, 11.

Corporation (CMHC) reports that between 1996 and 2001, a number of factors have contributed to a significant rise — from an historical perspective — in home ownership rates in Canada, including low mortgage rates, strong employment growth and higher consumer disposable incomes.[12]

At the other end of the income scale, the situation is markedly different. Approximately 6 percent of Canadian households faced overcrowded housing conditions in 2000, that is, the number of bedrooms in the home was insufficient for the size and make-up of the household (CMHC 2003, 11). As well, the 1996 Census revealed that 1.8 million Canadian households had problems obtaining affordable housing. CMHC data suggest that renters experienced similar difficulties between 1996 and 2001 as a result of low vacancy rates in many rental markets (CMHC 2003, 18). Data to date show neither significant growth in the provision of affordable rental units nor a decrease in overcrowding. The trends toward buying very large homes and increased home ownership described above clearly do not reflect the reality of the housing market for many low-income consumers. At this end of the income scale, the marketplace has not caught up with some consumers' needs.

Food is another area affected by substantial changes in consumers' financial situations. Statistics Canada reports that Canadians spent a higher proportion of their food dollars on meals outside the home (primarily in restaurants) in the 1990s than they did in the 1980s.[13] This trend reflects gains in disposable income (resulting from the strong economic expansion of the mid- to late 1990s), and an increase in one-person households and time-constrained households. Not surprisingly, high-income earners led the growth in restaurant spending.[14]

Low-income earners are in a different position: Statistics Canada's 1998–99 National Population Health Survey reported that more than 10 percent of Canadians (an estimated 3 million people) were living in food-insecure households.[15] In addition, the Institute for Research on Public Policy reports that food banks, which emerged in the 1980s in Canada, are growing quickly. Some 1800 new food banks opened between 1997 and 2002 (McIntyre 2003, 47). These developments suggest that, far from boosting restaurant and grocery store business, many low-income Canadians rely on charity for part of their food budget, or sometimes do without, as they are unable to fully participate in the market-based food retail sector.

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[12] For example, home ownership rates increased from 63.6 percent to 65.8 percent between 1996 and 2001, the largest increase in the last 30 years. Source: Ibid.

[13] For example, the food services share of overall consumer spending on food rose from 32.7 percent in 1989 to 34.6 percent in 1998. Source: Little and Bennett 1999, 21.

[14] For example, while one of every four Canadians lives in a household in the highest income quintile, these individuals account for more than one of every three consumer dollars spent in restaurants. Source: Little and Bennett 1999, 25.

[15] A *food-insecure household* is defined as one in which, at least once during the previous 12 months, family members were worried that there would not be enough to eat, did not eat the variety or quality of food that they wanted, or did not have enough to eat. Excluding the first group (those who worried but did not compromise the quantity or quality of food they ate), 8 percent of Canadians reported being food-insecure.

Another important sector that has undergone significant changes as a result of more polarized consumer incomes is financial services. This is a complex story. Many high-income consumers, especially those with funds available for investment, have benefited from the explosion in investment options since the liberalization of the rules governing the financial services sector. Mutual funds have proliferated and pension funds have grown, and a wide variety of companies now offer investment advice and products. It is interesting to note, however, that consumers do not operate without risk in these markets: many investors find information about sophisticated financial products to be complex and difficult to access and assess.

Canadians with modest financial resources have seen their choices expand in some ways. For instance, the alternative consumer credit market (e.g. payday loans) has grown significantly in Canada,[16] offering these consumers an alternative to mainstream financial institutions.[17] But, while such loans may be convenient, they come at a much higher cost than traditional financial products — with recent evidence suggesting annualized percentage rates ranging from 390 to 650 percent (Ramsay 2000). Access to and ability to assess complex financial information are challenges for many consumers in the alternative credit market, as they are for high-income investors. So, while the financial marketplace has developed new products for a wide range of income groups, all consumers face largely similar challenges, in the form of increased risk and information complexity.

Increased spending on services

The TD Bank Financial Group reports that "the structure of Canada's economy has undergone a meaningful change over the past few decades, as the service sector gains increasing clout, while the goods sector shrinks in relative importance" (Burleton and Alexander 2001, 1). This conclusion is supported by Statistics Canada national accounts data, which reveal that the nominal share of consumer spending on services increased from 45 percent in 1980 to 53 percent in 2002 (see Figure 1.2).

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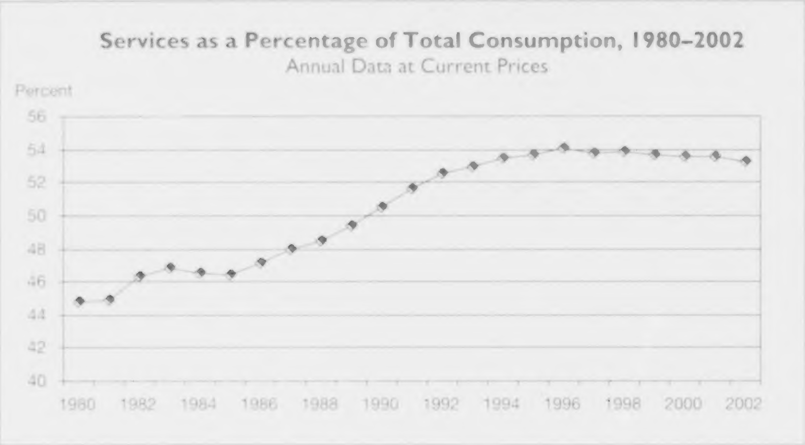
[16] For example, Money Mart, a leading provider of payday loans, established itself in Canada in 1982, and now claims to serve its clients at 300 locations.

[17] In many instances, these services represent the only option for low-income Canadians.

FIGURE 1.2



Source: Statistics Canada, CANSIM, table 380-0017; series v646942 and v646938.

A more detailed study confirms that while the average price of services grew slightly faster than that of goods from 1986 to 1996, the increasing importance of services is not attributable to inflation, but to sustained growth in the quantity of services bought:

> Over the past decade household preferences, on average, shifted away from goods commodities in favour of more services. While the [real] average per-household consumption of goods dropped by 13.9 percent in the period, [real] spending on services rose by 7.8 percent (Little and Béland 1999, 3).

This increasing presence of services in the economy has brought significant benefits to consumers. For instance, day-care centres have facilitated women's access to the labour market and thus, their earning potential. Internet services, as reviewed in Section 2.3, have empowered consumers in their interactions with the marketplace. Car lease arrangements have facilitated access to private transportation.

The growing importance of services in the economy, however, also raises unique consumer issues. Consumers may have more difficulty making wise spending decisions in a market dominated by services. One example is asymmetric information: the seller has complete information about the product, but the consumer's information is incomplete. A service cannot be examined in advance, nor can it generally be returned if unsatisfactory (see, for example, McGregor 1992).

Another challenge that is particularly acute for consumers in the services market is the use of contracts. There is evidence that many consumers have trouble when confronted with service contracts: half of Canadians strongly agree that contracts are often too long for an average person to be able to fully read them, and 65 percent disagree that contracts generally use plain, easily understood language.[18] Quebec's Office de la protection du consommateur reports that given the difficulty in assessing the quality of services, the latter account for a significant share of the consumer complaints received by the organization (Office de la protection du consommateur 2000). (More detail on many of these issues is presented in Part 2 of this report.)

1.2 Canada's Low Inflation Economy

Inflation is the increase, over time, in the average price of goods and services. The inflation rates in Canada and the United States are key influences on interest rates in Canada, which have direct implications for consumers. First, interest rates determine the cost to consumers of borrowing funds. Second, they determine the costs to producers of borrowing, costs that are passed on to consumers in the prices of goods and services.

Low inflation and low interest rates for consumers

Compared to the 1980s — the early 1980s in particular — consumers have experienced substantially lower inflation and interest rates in the last 10 years. In the early 1980s, the rate of inflation exceeded 10 percent, and then hovered around 4 percent from 1984 until the end of the decade. Since 1992, the inflation rate has generally stayed below 3 percent. Sustained low inflation is important to consumers because it has a substantial impact on prices. With an annual inflation rate of 5 percent a year, average prices double in slightly more than 14.4 years. Reducing that rate to 3 percent means that it takes 24 years for prices to double (Government of Canada 2002).

Low inflation and interest rates can benefit consumers by keeping prices predictable and steady. This is particularly beneficial for people on fixed incomes, since low inflation protects their purchasing power. For example, those depending on defined-benefit registered pension plans gain from consistent low inflation because most of these plans are not indexed to the inflation rate.[19]

Low real interest rates have dramatically reduced the costs associated with many types of consumer borrowing (for example, mortgages and personal lines of credit). The impact on consumers of current monetary policies that strive to limit inflation is well reflected in Statistics Canada national accounts data. For example, the debt-to-income ratio in Canada rose sharply since 1985, from 60.3 percent in the first quarter of 1985 to 103.2 percent in the last quarter of 2003 (see Figure 1.3). In addition, the saving rate declined over this period,

Research opportunities

Various business sectors have responded in different ways to the growing polarization of consumers' incomes. For example, recent analysis of the "fringe" financial sector (payday loans, rent-to-own stores, cheque-cashing services, pawn shops, etc.) suggests several subjects for further research, including the growing scale of fringe players and the consumers who use these services, the actual cost of providing fringe financial services and the ease of access to traditional financial services, the relationship between social policy and the demand for fringe banking services, and the effect of fringe financial outlets on communities and neighbourhoods, including research on where these establishments choose to operate (Buckland and Martin 2003, xii).

Rigorous analysis of responses to income polarization in other business sectors also would be a valuable contribution for both firms and policy makers, particularly with respect to the various risks and choices facing consumers.

The growing importance of services in the consumer marketplace also merits greater attention from researchers. Services (e.g. auto repairs, home improvements) consistently rate among the top subjects of consumer complaints. Close examination of such complaints could suggest other services needing analysis, and useful solutions for consumers, businesses and policy makers.

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[18] Question commissioned by the Office of Consumer Affairs in 2003 as part of the Environics Research Group's Focus Canada survey.

[19] Statistics Canada reported that, as of January 1, 2000, of all private and public sector defined-benefit registered pension plans (which accounted for 85 percent of members), only 8.8 percent were fully indexed to inflation, and only 18.8 percent were partially indexed. Alternatively, 67.4 percent of defined-benefit plans, covering 51.6 percent of members, had no automatic adjustment. Source: Statistics Canada 2003: 11 and Table 17, 41.

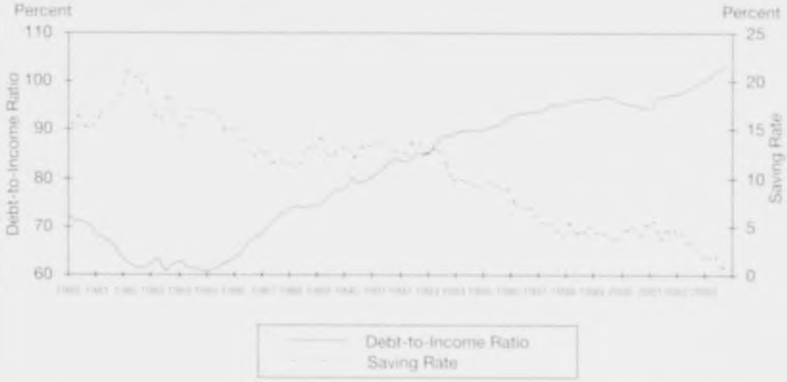
Research opportunities

Since Canadians are carrying more debt than ever before, further research could explore how vulnerable consumers would be to a sudden rise in interest rates. In particular, research could focus on the potential impact of higher rates on both the residential mortgage and short-term consumer credit markets, and on retirement incomes.

from 14.1 percent to 1.3 percent — an historical low. Low interest rates have also changed consumer behaviour in financial markets, by decreasing the attractiveness of holding money in traditionally safe savings options, such as bank accounts or government-issued savings bonds. As a result, some Canadians are seeking higher rates of return from their other investments, such as mutual funds. (These significant changes in Canadians' financial positions, and their related implications, are explored more fully in Part 2 of this report.)

FIGURE 1.3

Debt-to-Income Ratio and Saving Rate, 1980 Q1–2003 Q4



Source: Statistics Canada, CANSIM, series v498187 and calculations by the Micro-Economic Policy Analysis Branch, Industry Canada.

1.3 Regulatory Reform of Monopolies and Oligopolies

Since the 1980s, there has been considerable regulatory reform of monopolistic or quasi-monopolistic providers of residential electricity and natural gas, telecommunications and other services (the airline industry, for example). Greater choice in suppliers and lower costs are potential benefits of these changes for consumers, but these benefits also entail significant new challenges for consumers. A recent consumer study of the electricity market in the U.S., where regulatory reform is more advanced than in Canada, notes that, in general, a functional market can deliver more benefits to consumers than a regulator, but "a dysfunctional market can impose infinitely more harm on consumers than regulators on their worst day" (Cooper 2001, 15).

More choices for consumers

Canadian consumers have been given more choice in many markets opened to greater competition. The Canadian Radio-television and Telecommunications Commission (CRTC) notes that "residential consumers now have a range of alternatives to the incumbent telephone companies available to them for long-distance calling, Internet access, and mobile telephony" (CRTC 2002, 95). This is supported by industry data, which reveal that the incumbent companies' share of the telecommunications industry's total revenue fell from 83.4 percent in 1998 to 78.5 percent in 2001 (CRTC 2002, 14). The Public Interest Advocacy Centre (PIAC) notes that "from a retail perspective, [greater marketplace competition] clearly offers consumers a wide range of pricing options that would not otherwise be available …" (Lawson 2003, 21).

More challenges for consumers

Increased choices force consumers to deal with more — and more complex — information, since they must now make decisions that will affect their welfare and finances, in markets in which their experience is limited. Consumers can now comparison shop among a number of telephone, television signal, and, in some provinces, gas or electricity suppliers. And, consumers are heavily exposed to marketing and promotional activities as new entrants vie for business. However, even a little experience helps: in the case of long-distance telephone services, a 1999 survey by PIAC suggests that most consumers are comfortable participating in a competitive environment, with 79 percent of respondents reporting that they compared prices, and almost half (47 percent) reporting that they had switched long-distance providers at least once (Barrados 1999). In contrast, in the natural gas market an estimated 56 percent of consumers did not feel sufficiently well informed to make decisions about switching natural gas providers (Barrados 1999, 2, Appendix).[20]

One potential explanation for the substantially higher degree of consumer comfort in the competitive long-distance market, as opposed to the competitive natural gas market, may be consumers' greater familiarity with the former. In 1999, at the time of the PIAC survey, competitive natural gas markets were relatively new.[21] Consumers have had choice for long-distance telephone service suppliers since 1994.[22]

But even the mature competitive telecommunications market is not without consumer information challenges. While consumers now benefit from many choices of a long-distance service provider, comparing competing offers is much more challenging than it was a few years ago. Network access charges, minimum monthly charges, time-of-day restrictions and time limits on minutes used are common parts of many long-distance service plans today. For example, a package offered by one of the major incumbent companies in October 2003 included a minimum monthly charge of

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[20] Note that the results of the Public Interest Advocacy Centre's survey on natural gas were limited to consumers in Alberta and Ontario, the only two provinces that offered residential choice at the time of the survey.

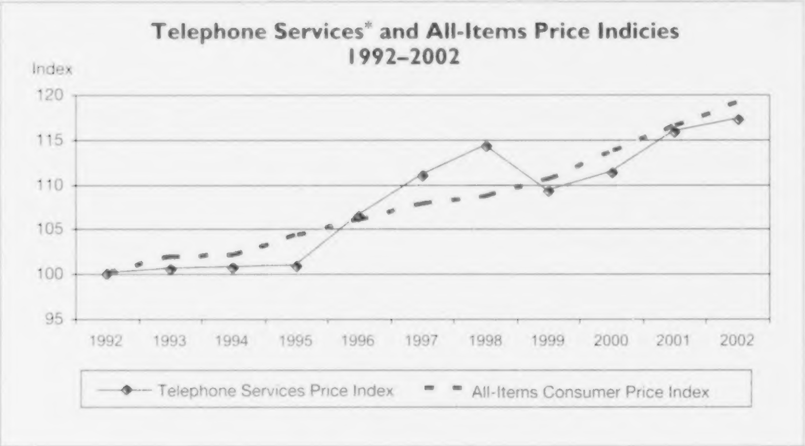
[21] For example, residential choice for natural gas in Alberta only became available for "many" consumers in 1996. See Ministry of Energy, Government of Alberta 2003. Alternatively, while Ontario's natural gas market was opened to competition in the mid-1980s, substantial changes occurred to this industry in 1998 with the passage of the *Ontario Energy Board Act*. See Ontario Energy Board 2002, 7, 10.

[22] The CRTC notes that true competition in the long-distance market began in 1994, when incumbents were required to modify their networks to allow people to make long-distance calls without having to dial extra digits. By 1998, one year prior to the Public Interest Advocacy Centre survey, the CRTC had determined that the long-distance market was sufficiently competitive and had ceased to regulate long-distance rates charged by the incumbents. Source: CRTC 2001, 3.

$4.95 (which includes the first 60 minutes of long-distance calls), a $2.95 network access charge and a limit of 800 long-distance minutes (customers are charged for additional minutes). This pricing structure is highly complex compared to either "plain old telephone service," with consumers simply paying a flat service fee, plus per call long-distance charges, or the earliest competitive long-distance service packages, which relied, for example, on a straightforward monthly minimum charge plus a price cap for unlimited calling. Bundling home telephone service with cellular and Internet services is making the telecommunications options available even more complex.

As one would expect, consumers have benefited from better prices as a result of new competition in markets formerly served by regulated monopolies. For example, Statistics Canada data for 1992 to 2002 reveal that price increases for telephone services over this period were generally less than the overall rate of inflation (see Figure 1.4). However, "telephone services" include many variables (basic local service, installation and repair, telephone equipment charges, long-distance charges), and this masks some important trends in prices.

FIGURE 1.4



Telephone Services* and All-Items Price Indicies 1992–2002

* Telephone services include basic local service, installation and repair, telephone equipment and long-distance charges.

Source: Statistics Canada, CANSIM, table 3260002.

Competition has certainly lowered long-distance service prices, and consumers who make frequent use of this service are unquestionably better off today than they were with the monopoly telephone system.[23] However, CRTC analysis shows that actual savings ultimately depend on two factors: a consumer's location and the pattern of telephone service use. Rates for basic local service increased significantly with rate rebalancing, and many new charges were introduced for services previously provided for free, such as directory assistance, 911 and Message Relay Service (mandatory monthly charges) and wireline maintenance insurance (Lawson 2003, 21). In addition, the CRTC reports that between 1995 and 2000 price increases for basic local telephone service were, in some provinces, dramatically higher for rural customers than for those in urban areas.[24] So, while the typical customer pays lower telephone bills in the competitive telecommunications market, this is not the case for all groups of consumers.[25]

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[23] For example, the CRTC analyzed the impact of long-distance savings on a typical consumer's total annual phone bill (including basic service) from 1995 to 2000. It found that, depending on the province and region (urban or rural area), the typical consumer saved between $133 and $324 annually.

Changes in the structure of Canadian electricity and natural gas markets are more recent, so it is too early to compare their intended and real effects on prices.

1.4 A More Open Domestic Marketplace

Over the past two decades, liberalized trade rules, improved cross-border transportation services and new information and communications technology have facilitated an increase in the exchange of goods, services, labour and capital. Trade in goods and services has the potential to offer a number of benefits to consumers, from lower prices to greater choice.[26] It also has raised consumer advocacy and protection issues.

Trade negotiations expand

Canada has participated in a number of international trade discussions through the General Agreement on Tariffs and Trade and its successor, the World Trade Organization (WTO). While trade negotiations began with goods, the Uruguay Round, the 1989 Canada–U.S. Free Trade Agreement and the 1994 North American Free Trade Agreement (NAFTA) all included services, as does the current Doha Development Agenda, which also covers WTO rules on competition policy and intellectual property policy. In an increasingly open marketplace based on services, the level of protection given to the interests of Canadian consumers hinges on the rules established by these agreements. As well, the attention now devoted to international frameworks formerly considered to be mainly of domestic concern, such as those on competition and intellectual property, could have a long-term impact on Canadian consumers.

Research opportunities

Canada is still in a relatively early stage in the reform of regulated industries and the introduction of competition in utility markets, especially in comparison with the United States. Nevertheless, good data on the impact of these reforms on consumers will likely be necessary to guide regulators and policy makers as reforms continue. Recent experience indicates that, apart from information on such traditional issues as impacts on prices and the entry of viable new competitors, information on service quality and innovation, affordability and the ability of consumers to understand and navigate these new markets and access redress will likely be required.

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[24] For example, during this five-year period, rural consumers in Newfoundland faced a 100-percent increase (versus 48 percent for urbanites). Similar differences occurred in Quebec (88 percent versus 39 percent), Ontario (96 percent versus 34 percent), Manitoba (116 percent versus 66 percent) and British Columbia (86 percent versus 46 percent). Rate differences (increases for urban and rural consumers) were broadly similar in the other five provinces. Data were not published for any of the territories. Source: CRTC 2001, 45.

[25] The CRTC defined a *typical consumer* as "a consumer with one residential line and 125 billed minutes of domestic long-distance (Canada–Canada) per month using blended peak/off-peak pricing information. … This is approximately equal to the national residential average." Source: CRTC 2001, 45, Table 5.2.

[26] See Chapter 2 for information about the effects of foreign direct investment in the retail services sector.

NAFTA, in particular, has had a significant effect on investment trends in Canada and on the movement of people. For example, between 1994 and 1998, the United States contributed all of the increase in the share of assets of Canadian enterprises held by foreign firms (Taylor 2001). As reported in Chapter 2, this movement of capital has the potential to bring direct benefits to Canadian consumers; for example, by increasing the presence of foreign retailers, firms that have been responsible for introducing some of the most innovative retail formats into Canada.

Between 1987 and 2001, exports as a percentage of GDP grew from 27 to 43 percent (Statistics Canada 2003a). Even when excluding the import content of exports,[27] the value-added contribution of exports increased during the 1990s, reaching 29 percent in 1999 compared to 19 percent in 1990 and a previous high of 22 percent in 1986 (Cross 2002). This, in turn, has influenced Canada's labour market, having a direct impact on job creation. According to the Department of Foreign Affairs and International Trade (DFAIT), 167 100 new jobs were created in Canada in 2001, linked in part to trade and foreign investment. Furthermore, it has been estimated that one in every four jobs in Canada is linked to its export success in global markets (DFAIT 2002, 1).

Of even more direct impact on consumers, have been changes in imports of "other consumer goods."[28] These soared by 207 percent in nominal terms between 1989 and 2002, compared to growth of only about 15 percent in Canada's population and of 64 percent (nominal) in the consumption of goods.[29] In other words, Canada consumed more goods per capita in 2002 than in 1989, and that growing consumption appears to be increasingly made up of imports rather than Canadian-made goods (see Figure 1.5).

In certain sectors, imports now dominate the Canadian marketplace. For example, the import penetration ratio[30] in footwear increased from 51 percent in 1989 to 70 percent in 1995 (Charron 1997), and in the pharmaceutical industry from 18 percent in 1983 to 76 percent in 2000 (Lexchin 2001).

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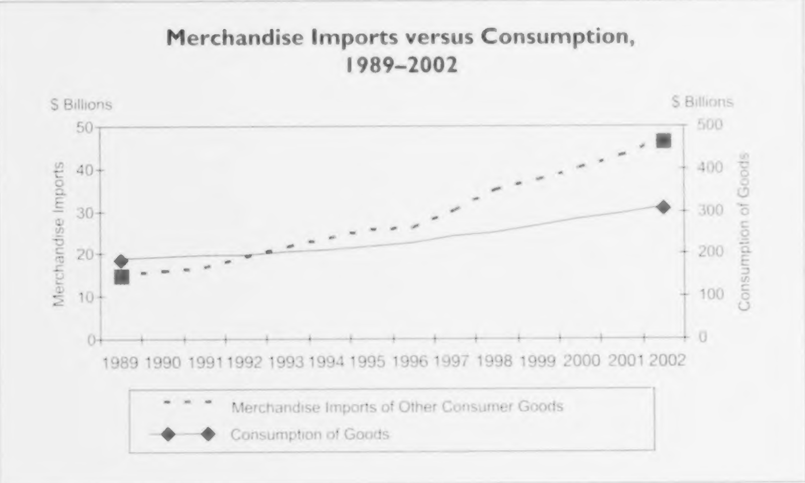
[27] The value of imported intermediate goods, which is not part of GDP.

[28] "Other consumer goods" does not include all consumer goods. It consists of two general categories: apparel and footwear and "miscellaneous" consumer goods (which includes televisions, radios and phonographs, printed matter, watches, sporting goods and toys, home furnishings, photographic goods and miscellaneous end products).

[29] Based on Statistics Canada national accounts data for consumption (expenditure-based and excluding services).

[30] Proportion of the domestic market supplied by imports.

FIGURE 1.5



Merchandise Imports versus Consumption, 1989–2002

Source: DFAIT, Fourth Annual Report on Canada's State of Trade, 2003, and Statistics Canada, CANSIM, table 380-0017; series v646939–v646941.

North American integration is now the most relevant trade phenomenon for Canada. Canada–U.S. trade in 1989 was worth 83 percent of the value of interprovincial trade; by 1996 the relative value of U.S. trade reached 142 percent of the value of interprovincial trade (Industry Canada 1999). Considering merchandise imports generally, the share originating from the United States has been in the 69–77 percent range since 1989 (DFAIT 2003, Table 1C). It may be, however, that the presence of other countries is specifically greater in the consumer marketplace, as the U.S. share of imports of "other consumer goods" into Canada was lower, at 48 percent, in 2003.[31]

Consumer choices transformed by trade

Imports benefit consumers by providing a wider array of products in the marketplace. This conclusion is supported by public opinion research that suggests that Canadian consumers see greater trade as having led to greater choice.[32] Canadians' overall assessment of trade agreements appears divided, however. When asked to think of Canada's participation in trade agreements and to choose between two statements regarding the impact of trade, respondents in another survey were about equally divided: 46 percent said that consumers benefited from an increasing diversity and availability of goods and 45 percent said consumers now face a more complex marketplace, in which it is more difficult to compare competing products and services.[33] Although interpretation of public opinion data is constrained by the fact that the data only measure

Values-based consumerism and globalization

The growth of international trade in goods has, in part, also spurred the emergence of values-based consumerism. Many consumers now want to know not only *what* they are buying, but also *how it was made*. Concerns about environmental protection, health risks, the nutritional content of food, animal welfare and exploitative labour practices have led to a growing market demand for products, many imported from the Third World, that are produced according to certain values-based standards. Examples include "fair trade" coffee, wood and paper products from sustainable forests, organic food, and clothing and footwear manufactured in "fair wage" factories.

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[31] The statistic, as opposed to general merchandise imports, is presented on a customs basis, since it was not found on a comparable payment basis. See Statistics Canada 2003b, Table 10.

[32] When surveyed about the impact that international trade agreements have had on consumer choice, 67 percent of respondents said consumers have more choice of products. See Millward Brown Goldfarb 2003.

[33] Question commissioned by the Office of Consumer Affairs in 2001 as part of the Environics Research Group's Focus Canada survey.

perceived benefits or costs. Canadians' views of trade suggest that its effect is not the same for all consumers, since those with higher income and a university degree are more likely to perceive benefits.[34]

Increasing international trade does not appear to have had a negative effect on Canadian consumers' protection after they make a purchase. For many products, the retailer provides a guarantee for goods imported or the manufacturer has warranty service in Canada.[35] Likewise, the refund and exchange policies are those of the retailer, regardless of the origin of the product. Nevertheless, some information can be more difficult for consumers to assess when the manufacturer's operations are not located in Canada. For example, consumers of imported products are at a disadvantage when assessing information concerning quality standards or the environmental and working conditions in which the goods were produced, or the manufacturer's reputation with respect to customer satisfaction. Labelling practices may also present some difficulties; in 2000, 54 percent of all allergy-related recalls coordinated by the Canadian Food Inspection Agency resulted from imported foods and, in an assessment of labelling and allergen controls in the import sector, the Agency concluded that, for the majority of importers, the procedures for ensuring label accuracy were considered inadequate (Canadian Food Inspection Agency 2000).

Since the first rounds of trade negotiations, tariffs have been reduced or eliminated in many sectors. The focus in today's trade negotiations has therefore shifted, with "increasing scrutiny of domestic policies as potential non-tariff barriers in various trade fora" (Hadfield, Howse and Trebilcock 1996, 21). Consequently, today's focus on non-tariff barriers is likely to increasingly involve the consumer protection framework. At the December 2002 Canada–European Union summit, for example, it was recognized that a free-trade agreement would not be developed in the short term, with officials saying that "some non-tariff barriers include difficulties over recognizing professional qualifications or differing consumer protection rules" (Canadian High Commission in London 2003, 3).

This trend is also likely to present a number of challenges to public interest advocates, such as consumer organizations. For one, given the complexity of analyzing these agreements, a recent Canadian study has suggested that the voluntary sector "will need to increase its level of knowledge and sophistication with regard to international treaties and agreements, especially those dealing with the flows of goods and services" (Public Policy Forum and the Queen's School of Public Policy 2003, 16). For consumer organizations, however, resource

Research opportunities

The interaction of trade and consumers is a potential area for researchers to address data gaps and explore analytical methodologies and emerging consumer issues. Much of the readily available information about imports is difficult to analyze from a consumer perspective. As a result, there is not much information available on the relationship between merchandise imports and the scope and nature of choice for Canadian consumers, or on the impact of imports on prices.[36]

Measurement and analysis are, however, likely to be all the more complex today. The tariff reductions agreed to in earlier rounds of trade negotiations were easy to report, but the long-term effects of a wider choice of quality and price combinations of imports are harder to isolate and quantify. Over time, many factors besides trade have come into play simultaneously and influenced outcomes in consumer markets, including changes in consumer preferences, the emergence of new and diverse local competitors, technological developments and shifts in the cost structure underlying production.

As for the harmonization initiatives of various trade agreements (e.g. safety standards and regulatory requirements), while questions have been raised with respect to their impacts on consumer protection, further, more detailed and longer-term analysis is required on such a complex issue. Most analysis of trade liberalization focusses on the ability of suppliers to access markets, with very little analysis done on the impact on consumers of new suppliers entering domestic markets and the implications for domestic regulation. In-depth case studies in various sectors may be required to better understand how NAFTA and other agreements have influenced business behaviour and government policy making, and, in turn, the consumer protection offered to Canadians.

Any analysis, however, will be constrained by the difficulty of ensuring — whether by collecting hard data or conducting public opinion surveys — that the effects of trade can be isolated from the many other factors that compose the complex dynamics of the marketplace.

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[34] The statement that they have benefited from increased choice was selected by 58 percent of those with household income greater than $80 000 versus 38 percent of those with less than $20 000, and 53 percent of those with a university degree versus 39 percent of those with less than a high-school education.

[35] Consumers may occasionally have to dial an American number (perhaps not toll-free) for follow-up customer service.

[36] In these cases, public opinion data can be used, even if imperfect, as substitutes. The Office of Consumer Affairs commissioned a question in 2001 on the effect of trade on prices as part of the Environics Research Group's Focus Canada survey. Results indicated that 45 percent believed that trade agreements have caused prices to increase, 19 percent that increased trade caused prices to fall, and 27 percent that trade had no impact on prices.

constraints limit their ability to develop detailed knowledge areas and impose challenges in allocating time between a number of local, national and international consumer issues. Another challenge noted by the Canadian study was the difficulty for domestic voluntary sector organizations such as consumer groups to lobby and interact with unelected international bodies, whose trade policy increasingly affects the rules governing domestic provision of goods and services (Public Policy Forum and the Queen's School of Public Policy 2003).

1.5 A Marketplace Transformed by Technology

The intensified pace and broad scope of technological innovation have raised a number of economy-wide issues for consumers. On the one hand, technology has increased consumer choice, both in the form of entirely new products and by increasing the reliability and lowering the cost of certain existing products. But the challenge of keeping up with new technological applications and product information affects the ability of consumers to navigate today's marketplace. Furthermore, the scope of technological change raises issues with respect to the traditional consumer protection framework.

While technological development has always played a role in the economy, consider the pace of change today. Over the past decades technological change has been fuelled by the awesome power of automated computation. Innovation in this field has been described by Moore's law, which states that the power of a microchip doubles about every 18 months. This has proven to be true since 1965 (*The Economist* 2003). The sustained rate of growth in the power to treat intangible data is all the more impressive when compared with "physical" sectors, such as passenger and freight transport. There have been no major technological advances in transportation "since the introduction of commercial jet planes, high-speed train networks and containers in the late 1960s" (Rodrigue et al. 2004).

New technology is also being adopted much faster than in the past. As shown in Figure 1.6, the number of years before a major new technology reaches 50 percent of households has become consistently fewer. Over the past two decades, the electronics sector has stood out in terms of the speed at which new technologies are transformed into consumer products. Less than 10 years after the Internet was commercially launched in 1993, 62 percent of households in Canada reported having at least one regular Internet user (Statistics Canada 2002). In 2003, almost half (48 percent) of Canadians reported having at least one digital video disk (DVD) player in their household. This compares to only 1 percent five years earlier and "in comparison, CD players and PCs took about 12 years to reach the same level of penetration in Canada" (Solutions Research Group Consultants Inc. 2003, 1).

How times have changed!

The following are examples of new products and services that have been introduced in the consumer marketplace since the late 1970s (based on *Wall Street Journal* 1998).

Walkman

Compact disk / digital video disk

Game Boy

Personal computer

Internet access

Cellular phone

Laptop computer

MP3 player

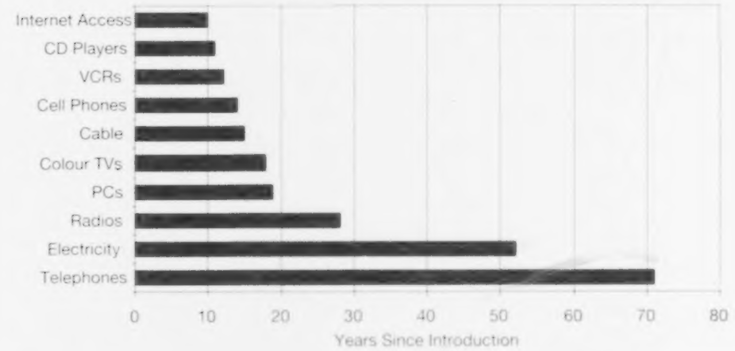
Direct satellite television

Building materials and technological improvements: An example of benefits and challenges

Technological changes in the building materials industry are ongoing and have had varying effects on products, including improving durability and energy efficiency, and making them more cost-effective and easier to install (CMHC 2000). This has benefited some consumers by giving them more choice of superior, higher cost building materials, while making owning a home more affordable for others by also making cheaper alternatives available. However, it can also amplify an information challenge, given the lack of consumer awareness of price-quality-reliability trade-offs in building products. "Building product companies believe that many builders are substituting lower quality products in an effort to reduce costs" (CMHC 2000, 3), with some owners unaware of the quality variations.

FIGURE 1.6

Number of Years It Took for Major Technologies to Reach 50 Percent of American Homes



Source: Reproduced from Adam D. Thierer, How Free Computers are Filling the Digital Divide, Backgrounder No. 1361, The Heritage Foundation, April 20, 2000.

New products and even new industries

The rapid growth in computer power has quickly created many new electronic products (DVD players and cell phones, for example) and services (electronic banking). And technological advances have broadened consumer choice in other areas, such as eye care, with the introduction in the mid-1980s of disposable contact lenses and laser eye surgery.

Entirely new industries have developed based on new technology, such as biotechnology. While the biotechnology industry is still considered to be in its infancy (the longest average use of biotechnology being less than 11 years; Traore 2003, 11), the potential benefits to Canadians are significant. This is especially true in health care, in which "medicines, vaccines and other health-related devices and products will help reduce or eradicate many diseases and improve life expectancy" (Traore 2003, 22).

Greater range in quality and prices

In addition to creating new products, technological development has had a significant impact on quality and price levels. For example, the development and production of a new motor vehicle model, which once took four to six years, is now accomplished in closer to two years (O'Neill 1998) with major cost savings to manufacturers. These shorter product development times have put upward pressure on product content and overall quality,[37] as "no vehicle can expect to stay on the market for long without being replicated or outdone in terms of quality" (O'Neill 1998, 9). Technological developments in computers, particularly, have been beneficial to consumers, with both significant performance improvements and price cuts. Data comparing eight generations of semiconductors (from the 4 kilobyte to the 64 megabyte chip) reveal that the average price per unit of memory declined sharply as the power of chips improved (see Figure 1.7).

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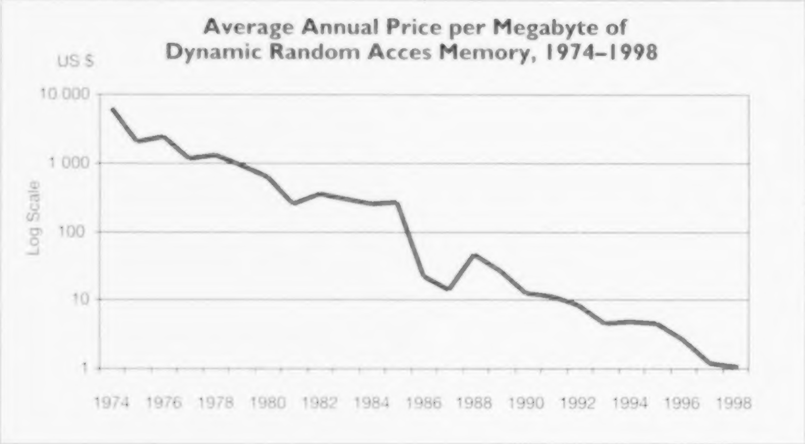
[37] While only an imperfect indication of product quality, odometer readings at the scrap yard provide some quantitative measure of the trend. See Desrosiers 1999. "In the 1960s the average vehicle in North America lasted only 140,000 to 150,000 kilometres. Today the average vehicle lasts 250,000 to 270,000 kilometres and within five years will last more than 300,000 kilometres. This represents a doubling of the vehicle's useful life over the last 30 years."

FIGURE 1.7



Average Annual Price per Megabyte of Dynamic Random Acces Memory, 1974–1998

Source: Nadejda M. Victor and Jesse H. Ausubel, 2002, DRAMs as Model Organisms for Study of Technological Evolution, Technological Forecasting and Social Change, 69(3): 243–262.

The problem of rapid product obsolescence

With rapid technological change and ever faster product development, relatively new product innovations, formats and versions are quickly rendered obsolete. Once a new type of product is established in the market, another often soon comes along. In 1983, for example, 20 years after the first cassette player/recorder was introduced, tapes were outselling vinyl. A year before, however, the first compact disk (CD) system had been announced, and CDs in turn surpassed cassette sales in only 10 years (by 1992) (DeBarros 2001). Knowing when to buy products using a new technology or even whether to buy them is thus an issue that characterizes the modern consumer marketplace. Many consumers struggle to understand these changes, since technologies are sometimes designed by and for daring early adopters. For example, on the topic of the computer industry and of the diffusion of innovation throughout society, it has been noted that "early adopters find the product adequate, so all the industry needs to do is coax the reluctant masses to buy in and accept the responsibility for learning to live with expensive, inadequate solutions" (Mueller 2000). Public

Electronic waste: The environmental impact of fast-changing technologies

According to studies commissioned by Environment Canada, more than 140 000 tonnes of computer equipment, phones, televisions, stereos and small home appliances accumulate in Canadian landfills every year, the weight of which represents "enough uncrushed waste to fill up the Toronto Skydome every 15 years" (Environment Canada 2003). Of greater concern than managing the volume of this waste is the fact that most electronic equipment contains toxic substances such as lead, cadmium and mercury. A number of technological changes are accelerating the disposal of electronic products, such as the expectation that the turnover rate of Canadians' purchases of computers will fall to only two years (May 2001), and "the millions of television sets that will be discarded once the digital TV revolution kicks in" (Canadian Press Newswire 2000). Canada's consumer electronics and information technology industries are working with governments and stakeholders towards the development of sustainable solutions for Canada's electronic waste problem (Canada NewsWire 2003).

opinion poll results suggest that 62 percent of consumers are, in fact, concerned about not understanding the usefulness and value of new products.[38]

When personal computer sales growth declined for the first time in 2001, "upgrade fatigue" was pinpointed as one of the reasons (*Los Angeles Times* 2001). The pain of upgrades is especially associated with the personal computer market, because it is now almost entirely a replacement market (i.e. computer owners replacing old machines, as opposed to first-time buyers). In other cases, the pain has been felt by the early adopters of new product versions that were subsequently found to be inadequate by users and had to be replaced. For example, the first phone-enabled version of a popular handheld e-mail device, required early adopters to use cumbersome headphones and wires to make and receive a phone call. Within months, a new series that had a built-in speaker and microphone was released (Manes 2003). Also, consumers of an emerging technology who have purchased from one supplier can be left confused when announcements from another company raise the issue of competing standards. Perhaps the most notable example of this was the Beta versus VHS format war over videocassettes. Another recent example has to do with new DVD storage and recording formats (*The Globe and Mail* 2002).[39] In summary, a consumer behaviour study involving eight such technology problems concluded that the new–obsolete problem is indeed consumers' most widely experienced challenge (Mick and Fournier 1998).

With technology playing an increasingly vital role in our daily lives, it is not surprising that the ability to understand it is now getting considerable attention. The U.S. National Academy of Engineering emphasized the pitfalls of the low level of technological awareness in society in general:

> Although the United States is increasingly defined by and dependent on technology and is adopting new technologies at a breathtaking pace, its citizens are not equipped to make well-considered decisions or to think critically about technology. … Americans use technology with a minimal comprehension of how or why it works or the implications of its use or even where it comes from. … We fill shopping carts with highly processed foods but are largely ignorant of their content, or how they are developed, grown, packaged, or delivered. … Americans are poorly equipped to recognize, let alone ponder or address, the challenges technology poses or the problems it could solve. And the mismatch is growing. Although our use of technology is increasing apace, there is no sign of a corresponding improvement in our ability to deal with issues relating to technology (National Academy of Engineering 2002, Executive Summary, 1–2).

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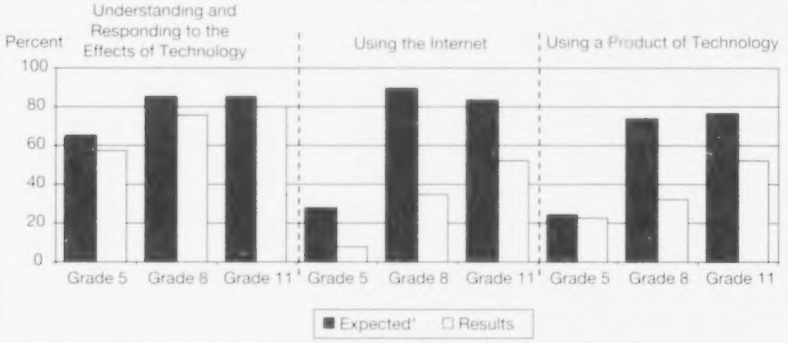
[38] Question commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey, 2002. When considering those reporting to be *very* concerned, results were higher for seniors (34 percent of those aged 60 and older, compared to 18 percent of those ages 18 to 29) and those with less education (33 percent of those with less than a high-school diploma, compared to 17 percent of those with a university degree).

[39] "Rivalry among industry titans over next-generation DVDs heated up on Monday when Japan's Toshiba and NEC said they would propose a cheaper type of high-capacity disc incompatible with the Blu-ray format advanced by Sony and others." Source: *The Globe and Mail* 2002.

Abilities and skills related to technology have clearly become essential for consumers. Today's youth are expected to demonstrate greater technological literacy than were previous generations, and should be better equipped as tomorrow's consumers. It appears, however, that even today's youth are challenged in their use of technology, as suggested by a provincial assessment of students in grades 5, 8 and 11 in Saskatchewan. It showed that students of all ages fell below expectations in their understanding and use of new technologies (see Figure 1.8).

FIGURE 1.8

Percentage of Students Attaining Highest Levels (3, 4 and 5) in Technological Literacy



* Standards and expectations were set by a group of stakeholders, including parents, students, teachers, directors, curriculum writers and businesspeople.

Source: Provincial Learning Assessment in Technological Literacy, Saskatchewan Education, 1999.

Challenges to the traditional consumer protection framework

Keeping consumer protection legislation and regulations up to date is increasingly challenging in the face of widespread and rapid technological change. For example, since "the threat and promise of networked digital technology is that every individual with access to a computer will be able to perform the 21st century equivalent of printing, publishing and vending" (Litman 1997), digital issues are among those identified as outstanding concerns to be dealt with in future phases of copyright revisions (Industry Canada and Department of Canadian Heritage 2001). In the case of biotechnology, consumer protection has had to deal with "the rapid pace of technological innovation and the shortening of the gap between discovery and application which puts pressure … on the regulatory apparatus ..." (Naimark 2000). The number of new biotechnology products and processes marketed tripled between 1997 and 1999 (Traore 2003), and the rapidity of these changes has challenged the quantification of risks to human health and the environment. Regulators thus face difficult risk analyses, which may cause significant delay in access to new products, but must be done in light of the potential risks of quick market introduction.

Research opportunities

There are no indications that the pace of technological advancement will slow significantly in the near future. Therefore, the consequences of the rate at which products are disposed of or rendered obsolete by new versions must be better understood. Considerations include assessing the costs to consumers against the value offered by new product versions, as well as environmental impacts. Furthermore, while some work has been undertaken,[41] it may be useful to get a broader overview of consumers' technological literacy skills to help identify the benefits and costs to them of adopting a particular technology. Finally, consumer perspectives (e.g. an understanding of how consumers actually use a new technology, how well they understand it, how they integrate it with their other activities) will continue to be needed for regulation in key sectors to remain effective.

Finally, with much of the technological change having occurred in information and communications technology, the particular dynamics of network effects[40] are increasingly important. Regarding electronic commerce:

> In the area of data networks, it is essential that policy makers protect consumers against monopolistic and anti-competitive practices. Increasing returns and network effects lead to problems when dominant firms use market power to exclude rivals or limit the ability of rivals to develop products that are interoperable. Practices of bundling products, technological tying of products, or other techniques can reduce competition and lead to high prices, reduced consumer choice or lower quality (Trans Atlantic Consumer Dialogue 1999, 1).

It should be noted that some analysts take a different view (see VanDuzer and Paquet 1999).

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[40] Network effects exist when the value of a good or service increases with the number of others who purchase or use a compatible good or service. The classic example of a network system is a telephone exchange, in which the value of joining the network increases with the number of other subscribers who are connected and therefore can be reached on compatible networks.

[41] Such as the above-mentioned 1999 *Provincial Learning Assessment in Technological Literacy*, Saskatchewan Education (see Figure 1.8).

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CHAPTER

Consumers and Changing Retail Markets

Summary

2.1 The Changing Retail Market Structure

The structure of the Canadian retail market has changed considerably in recent years. A number of large non-Canadian-based retailers (mainly from the United States) have established a significant presence in Canada, bringing with them new approaches to doing business, such as use of the "big box" retail format, everyday low pricing, and electronic data interchange with suppliers. Several Canadian-based retailers are transforming themselves to compete successfully with these new large players, but in some sectors, locally based independent retailers have disappeared altogether. Canadian consumers have benefited in the short term from the lower prices and added convenience associated with the changed retail market structure, but the retail environment has become more homogenous and concentrated, losing some of the distinctiveness and diversity that consumers enjoyed in the past. **Research opportunities** include more analysis of the effects of structural changes, including quantitative research on prices, product selection and choice of suppliers. Other research could assess the effects on consumers of the homogenization of the shopping experience, the impact of the rise of private label brands, and the impact that trends such as "power centres"(three or more big box stores with a shared parking lot) will have on the shopping experience.

2.2 The Increasing Use of Technology in Stores

Retailers' use of — and consumers' interaction with — various in-store technologies has grown over the last few decades, leading to new in-store services. New technologies are used by retailers to manage stock in a more efficient and effective manner, while at the same time offering the potential for consumers to conduct transactions or obtain product information and service without the assistance of a store employee. These developments also raise concerns associated with the ability of commercial parties to collect, process, and track the purchasing habits of consumers. These advances may also create barriers for those who are less adept at dealing with new technologies (e.g. elderly people), thereby contributing to the "digital divide." **Research opportunities** include further consumer-focussed analysis of how emerging technologies change retail competition, and the ways in which savings may, or may not, be passed on to consumers. The most significant area requiring consumer-focussed research relates to privacy and the sharing of digital information on consumers.

2.3 The Internet and the Consumer Marketplace

The Internet has substantially changed the nature of the retail environment. Canadians are increasingly going online to research and then purchase goods and services. By providing information, the Internet has empowered consumers and given Canadians greater and more convenient access to the marketplace. Given Canada's geography, the Internet gives consumers the potential to interact with specialized non-chain sellers who do not have stores in their community. The Internet has also affected the traditional pricing model, but with mixed evidence on its overall impact on prices. While the Internet provides a number of benefits, evaluating the accuracy and reliability of consumer information found on there can be challenging. Consumers have also expressed concerns with respect to online privacy, security and redress. Finally, not all Canadians are benefiting equally from the Internet. **Research opportunities** include analysis of how the pricing of various goods and services may be changing as a result of the Internet, and the consequences for the "unconnected" consumers. Further work is also required on solutions to challenges such as assessing the accuracy of online information, ensuring security and privacy, and cross-border consumer protection.

2.4 Technology's Role in Changing Financial Services

The introduction of automated banking machines, point-of-sale debit terminals and online banking has transformed how Canadians purchase goods and access their money. These new technologies have provided consumers with substantial benefits in terms of convenience: accessing one's money no longer requires advance-planning and long, pre-weekend lines at the bank. These technology-based changes in the banking sector also raise issues concerning additional costs, access to local in-person bank services, and (in some cases) greater exposure of consumers to liabilities. **Research opportunities** include examining whether self-serve banking puts less technologically sophisticated users at risk and, for the non-users, the impact on their financial options.

2.5 The Growing Presence — and Changing Forms — of Advertising

Canadians are exposed to increasing amounts of advertising, often from foreign sources, and increasingly in new technology-aided forms. At one level, advertising can benefit consumers by providing useful information to aid in marketplace decisions. However, the pervasiveness of advertising — in schools, in e-mails, on bus shelters, billboards, and even in public washrooms and on garbage receptacles — is challenging conceptions of public versus private space. In some cases, such as product placements in television programs, marketing techniques may be so subtle that it is not clear to a consumer that advertising is taking place. The intrusive character of some Internet marketing techniques, such as unsolicited e-mails, has also raised concerns. **Research opportunities** include further analysis of how advertising influences children, a generation growing up with unprecedented exposure to commercial messages; sectoral studies on the impact of technologies on the "paid for advertising" model applied to content programming; and as technology-based applications continuously change, the development of acceptable practices — particularly with respect to privacy.

Chapter Two
Consumers and Changing Retail Markets

Most expenditures by consumers for goods and services occur through retail transactions. This retail spending accounts for between 50 and 55 percent of Canadian households' consumption (mortgage and rent payments are not considered to be retail expenditures), while retail trade represented 6 percent of GDP in 2001 (Retail Council of Canada 2001).[42] Of the many factors that have transformed retail markets over the past two decades, one of the most significant is technological change.

This chapter deals with five subjects: the changing retail market structure in Canada, the increasing use of technology in stores, the effect of the Internet on how consumers get information about and buy goods and services, the manner in which technology has changed how people access and spend their money, and the growing presence of marketing in Canadian society.

2.1 The Changing Retail Market Structure

The retail market structure has changed considerably in recent years. A number of large non-Canadian retailers (mainly from the United States) have established a significant presence in Canada, bringing with them new approaches to doing business, such as use of the "big box" retail format, everyday low pricing, and advanced logistic systems. Several Canadian retailers are transforming themselves to compete successfully with these large newcomers, while in some sectors, local independent retailers have disappeared altogether. In the short term, Canadian consumers have benefited from the lower prices and added convenience associated with the changed retail market structure, but, at the same time, the retail environment has become more homogenous and concentrated.

Foreign retailers in Canada

During the last three decades, foreign retailers have increased their presence in Canada. Between 1975 and 1995, the number of foreign retail stores more than tripled, from slightly more than 3000 to approximately 10 000, and their floor area more than doubled (see Figure 2.1). And as of 1996, foreign retailers accounted for about 35 percent of all retail sales in Canada and about 19 percent of all non-automotive sales (Simmons and Kamikihara 1999, 19).

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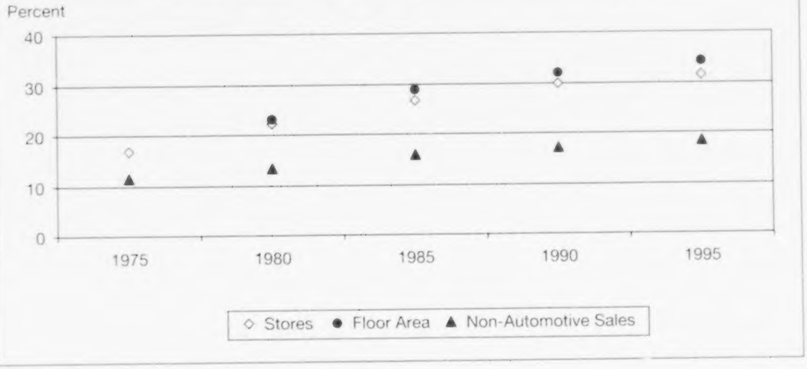
[42] Retail trade in the data on GDP by industry excludes vehicle sales and other sub-sectors. When considering a broader measure of "total retail sales" (which includes the automotive, clothing and other sub-sectors), the value of the sector exceeds $300 billion (see Statistics Canada 2004), as opposed to about $60 billion under the definition of retail trade.

FIGURE 2.1

Market Share of Foreign Retailers in Canada, 1975–1995
(As a Percentage of the Total Canadian Retail Market)



Note: Data for floor area (in percentage terms) for 1975 are not available.

Source: Simmons and Kamikihara 1999, Table 10, p. 19.

The bulk of total foreign retail sales in Canada (approximately 75 percent) is attributable to firms based in the U.S., with most of the rest coming from firms in the United Kingdom (Simmons and Kamikihara 1999, 24). In fact, the number of U.S. retail chains operating in Canada increased from 10 in 1985 to 185 in 2003. As of early 2003, 11 of the top 20 retailers in Canada (measured in terms of retail sales) were U.S.-owned (CSCA 2003). A recent analysis by the U.S. government identified several factors contributing to the strong presence of U.S. franchises in Canada, including that Canadian consumers readily recognize and are familiar with American products and services due to their "constant exposure to U.S. media, [which] results in very high receptivity even before [American] products and services come onto the market" (Wetzel 2003). Other factors identified are the similarity between Canadian and American cultures and markets (Watson 2000) and the proximity of the two countries, with Canada being an attractive market to U.S. retailers: "Toronto [is] the fifth largest metropolis in North America, and … 55 percent of Canada's population lies between Québec City and Windsor, within 100 miles of the United States" (Thorne 2000).

Historically, foreign retailers have been responsible for introducing many of the most important structural innovations in the retail sector in Canada, including the "five and dime" store, the supermarket, the discount department store and "big box" stores (Simmons and Kamikihara 1999, 5). In recent years, Wal-Mart in particular has been credited with spurring several retail innovations in Canada, such as technologically advanced distribution centres with efficient cross-docking (merchandise received at a warehouse or distribution centre is not put away, but instead is readied for shipment to retail stores) and electronic scanning and sorting technologies. Researchers from the Centre for the Study of Commercial Activity (CSCA) at Ryerson University observe that intense competition was lacking among Canadian retailers prior to the entry of foreign (especially U.S.) retailers in the 1990s. Without them, the Centre concludes, the Canadian retail sector may have been slower to change and less innovative, possibly resulting in higher prices and fewer choices for consumers in Canada.[43]

Public opinion data suggest that Canadians have mixed feelings about the increased presence of U.S. retail chains in Canada, with equal proportions (28 percent) reporting a positive and negative impact on Canadian consumers (44 percent reported a "neutral or mixed" impact) (Millward Brown Goldfarb 2003, 3-8). Millward Brown Goldfarb conclude:

> On the one hand, [Canadians] are happy to have a variety of choice and access to the same products as those in America, but on the other hand [they] worry about the possible dominance of huge, well-financed retailers in the Canadian market and the repercussions this would cause. If the rapid ascension of Wal-Mart to the top of the Canadian discount retailer market is any indication, Canadians are willing to put aside nationalist worries if the price is right (Millward Brown Goldfarb 2003, pp. 3-8–3-9).

Large retailers, foreign and Canadian, are now more common

Most observers agree that at no time in history has retail marketing been evolving as rapidly as it is now, and that the most significant development of the last few decades has been the emergence of big box stores.[44] In the first study on this issue by Statistics Canada, Genest-Laplante identified three unique categories of big box stores in Canada and quantified the growth (in market share) of these new formats. The first category is supermarkets, with groceries as the main products, and a minimum store size of 50 000 sq. ft. Second are specialty stores — retailers focussing on specific types of consumer goods, such as sporting goods, electronics, toys, drugs and clothing, with a minimum size of between 5000 and 20 000 sq. ft. (depending on the type of goods sold). Finally, there are general merchandise stores with a minimum of 90 000 sq. ft. Since 1989, these three categories have steadily taken a greater share of Canadian consumer sales in their respective markets. For example, by 1996 big box supermarkets had a 35 percent market share of the retail food market (up from about 21 percent in 1989), specialty retailers had 25 percent of specialty retail sales (up marginally from about 21 percent in 1989), and general merchandise stores had a 70 percent share (up from 60 percent in 1989) (Genest-Laplante 2000).

The importance of small businesses to consumers' interaction with the marketplace

Canada's economic landscape is significantly shaped by relatively small-sized businesses where, according to 2000 Statistics Canada data, around 97 percent of establishments have 50 employees or less.[45] More specifically:

> … small businesses are heavily represented across the entire spectrum of consumer-facing industries, spanning accommodation and food service firms, retail stores, and many professional services firms in fields such as law, accounting, consulting, and medicine. Non-professional services, such as auto repair and contractors, also target consumer business and are heavily represented within the small business sector (TD Canada Trust, 2003).

A number of positive characteristics are associated with small and medium-sized businesses, such as the capacity to respond quickly to changing consumer needs given flat management structures and flexibility and more personalized service for customers. During the course of past consultations on the *Competition Act*, it has been underscored that "the protection of small and medium-sized businesses is considered one of the derivative benefits of maintaining and encouraging competition, rather than a separate goal of competition legislation" (Public Policy Forum, 2000). From a consumer perspective, it is also believed, however, that transacting with small businesses "exposes the consumer to many challenges and potential market failures in such areas as choice, complaints and redress, information, consumer education, selling practices, repairs and warranties and protecting their consumer interest in general" (McGregor, forthcoming). Given their significant presence in the Canadian marketplace and their unique characteristics compared to larger stores, small businesses are key when developing consumer protection policy options and legislative proposals, which can present different challenges for small businesses to interpret and apply.

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[43] The source of this observation is a letter from Tony Lea and Ken Jones (CSCA), April 2, 2003.

[44] For example, see Simmons 2000, 17, Genest-Laplante 2000, 1, and Jones and Doucet 1999, 1.

[45] See Statistics Canada, "Establishments by industry," at **www.statcan.ca/english/Pgdb/econ18.htm**

The growth of big box stores has been facilitated by the arrival of several major U.S. retailers in Canada since 1994, including Best Buy, Old Navy, Home Depot, Wal-Mart, Staples and Winners (CSCA 2003). This big box phenomenon has been an important influence, and a number of large Canadian retailers have since adopted this format, including Rona, Canadian Tire, Danier Leather, Harry Rosen, Jacob, Loblaws Supercentre and Zellers (CSCA 2003). Moreover, big box retailing itself has led to new formats. For example, "power centres" (defined by CSCA as three or more big box retailers with a shared parking lot and typically adjacent smaller commercial services) emerged in Canada in 1992, and numbered 213 as of 2002. Power nodes (which CSCA defines as one power centre with additional big box or power centres within a one kilometre radius, typically centred at a major highway interchange) began to emerge in Canada in the mid-1990s, and numbered 44 as of 2002.[46] In terms of impact, anecdotal evidence suggests that big box stores encourage consumers to make longer trips to get to them ("destination shopping") and to visit fewer stores per trip (CSCA 2003).

The big box store concept has resulted in changes all along the retail industry's supply chain, from manufacturers, subcontractors, and distributors, to related sectors such as packaging.[47] Given the scale of the contracts offered by big box retailers, the latter have been in a position to put significant pressure on suppliers to innovate as a means to remain competitive. Industry observers have noted how some manufacturers' relationships with big box retailers have lead to a modified, streamlined supply chain:

> In the past, manufacturers created complex product lines, and the costs associated with such variety were simply passed down through the supply chain — to the wholesaler, then to the retailer, and finally to the customer. Big box retailers, however, have squeezed the inefficiencies out of the system by occupying the leading edge of supply-chain automation. They often require a dramatic restructuring of the way manufacturers supply products to market (Schwalm and Hardling 2000, 30).

Beyond automation-based efficiencies, there are other ways in which large retailers are affecting relationships with suppliers:

> Retailers in many industries have become bigger in sizes (sic) (e.g. chain stores, big box stores)… Retailers have also started to develop in-house brands so that they do not completely rely on upstream manufacturers' supplies. These changes may have helped retailers increase their bargaining power over suppliers. The retailers with bargaining power are also likely to impose vertical restraints on manufacturers. Examples of these restraints include slotting allowances, listing fees, upfront payments, exclusive supply,

New strategies on pricing

Wal-Mart entered Canada in 1994 with the acquisition of 122 Woolco stores, and "in eight short years, it has easily surpassed the Hudson Bay Co. and its Zellers chain to become Canada's number one retailer. Wal-Mart [in 2002] effectively controls 38 percent of the Canadian department store market" (Libin 2002). Anecdotal evidence suggests this share continues to grow significantly. Before Wal-Mart's arrival, Canada's retailers mainly operated according to a variable "high low" pricing model, using weekly fliers, loss leaders and specials to attract consumers. However, "to compete against Wal-Mart and one another, Canadian discount and traditional department stores are borrowing some of the U.S. giant's tactics, including everyday low pricing" (Thorne 2002). For example, it was reported in 2003 that approximately 35 percent of Sears Canada's sales are based on everyday low pricing, a substantial departure from its historical method of using frequent markdowns to attract customers (Strauss 2003). The same source reported that Zellers has responded by moving a larger share of its inventory to an everyday low pricing system (96 percent of inventory as of 2002, up from 87 percent in 2000). The end result is that it appears Canadian consumers are benefiting from consistently lower prices due to the introduction and widespread use of everyday low pricing in the retail marketplace.

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[46] Source: Letter from Tony Lea and Ken Jones (CSCA), April 2, 2003.

[47] For example, an article highlighting a report from researchers at Packaging Strategies notes that "This ongoing migration of the North American consumers to the 'mega format' retailers has already had a profound effect of shifting the decision-making power in regard to the packaging of the retailed products from their manufacturers to the retailers,' who are becoming dictatorial about which products they carry, as well as calling the shots on the packaging those products come in." See Canadian Packaging 2003.

> refusal to stock (or delisting), minimum supply levels, and minimum advertising requirements. The question is whether these restraints are efficiency enhancing and/or anticompetitive (Tan, 2001, 14).

In summary, while large retailers' buying power can lower prices, it may also influence what products find their way to store shelves and, therefore, may have longer-term impacts on consumer choice.

Canadians clearly enjoy many of the features of big box stores, including added convenience, longer hours of operation, one-stop shopping, and free and ample parking. Public opinion data from 2003 indicated that a majority of Canadians find that big box retailers provide convenient one-stop shopping (72 percent) and lower prices (68 percent). [48]

But there are disadvantages to big box stores, including crowds, traffic congestion and, particularly for older consumers, very large spaces that can be exhausting and disorienting to navigate. Perhaps the greatest perceived shortcoming of big box stores is a lack of personal service. For example, in a 2003 national poll, only 26 percent of Canadians agreed that big box stores provided better service than smaller stores,[49] and a 2000 poll of British Columbia residents revealed that a slim majority (51 percent) preferred shopping in smaller stores to big box ones, citing the personal attention and service they receive in smaller shops (see Retail Council of Canada 2000). Considering all factors, however, Canadians appear to appreciate big box stores — some 57 percent agree that "overall, they are good for consumers."[50]

Greater concentration in the retail market

With the growing presence of large retailers over the last decade, Canada has witnessed increasing concentration in some retail sub-sectors, as measured by the market share of the top four corporations.[51] In fact, between 1998 and 2001, the three most highly concentrated retail sub-sectors in Canada (food, prescription drugs and general merchandising) all became more concentrated (see Figure 2.2). While comparative statistics are hard to find, there is some evidence to indicate that parts of Canada's retail sector are more concentrated than comparable sub-sectors in some of our closest trading partners. For example, in 1998 the largest supermarket chain in Canada had a market share of 31.1 percent (Gomez-Insausti 2000, 19), far exceeding the market share of the largest food retailer in the U.S. (5.8 percent) and Great Britain (15.4 percent) (Hughes 1996). Interestingly, the two least concentrated retail sub-sectors in Canada (household furnishings and appliances, and apparel) became even less concentrated between 1998 and 2001.

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[48] Question commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey, 2003.

[49] Ibid.

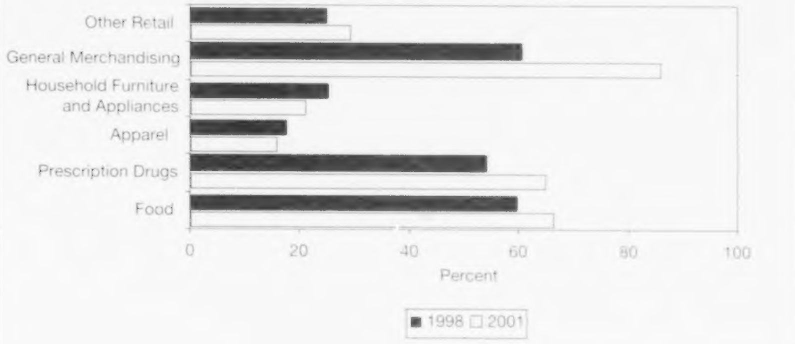
[50] Ibid. Twenty-three percent neither agreed nor disagreed with the statement, and only 20 percent disagreed.

[51] This figure corresponds with the concentration ratio (i.e. the sum of the market shares of the four largest corporations).

FIGURE 2.2

Market Concentration of Large Retailers, 1998 versus 2001

(Top Four Conglomerates/Corporations)



Source: Gomez-Insausti 2000 and CSCA (Ryerson University) 2003.

While data about store closures nationwide do not exist, the impact of selected big box stores on the retail structure in the Greater Toronto Area (GTA) has been analyzed. Between 1993 and 2002, the closure rate for smaller stores located within five kilometres of a selected big box retailer ranged from 26 to 55 percent.[52]

An earlier study in the GTA found that in the first years of competition, the closure rate in a retail category was high as the weakest street retailers were forced out of business,[53] and that even retailers several kilometres away experienced small losses in sales in some sectors (Jones and Doucet 1999, 23, 36). Canadian consumers are well aware of these impacts: a public opinion poll in 2003 found that 74 percent of Canadians believed that the arrival of big box stores resulted in fewer independent local stores.[54]

The implications of a more concentrated retail sector extend to the street level, with more homogeneity and less diversity, as independent retailers have traditionally provided "a social, cultural and economic focus for their surrounding neighbourhoods" (Jones and Doucet 1999, 16). A case can be made that big box stores may result in a less community-oriented retail sector. For example, the GTA study reported a noticeable impact of independent store closures on the "quality" of the shopping experience in the streets of Toronto. While the situation might be mitigated somewhat by a shift to restaurants, high-end coffee shops, and personal and business services outlets, independent clothing and hardware stores generally made way for low-end dollar stores and doughnut shops (Jones and Doucet 1999).

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[52] For example, a 26-percent closure rate was recorded for hardware stores located within five kilometres of a Home Depot, and for pharmacies located within five kilometres of a Wal-Mart. The closure rate for bookstores located near a Chapters/Indigo was highest: 55 percent. Source: CSCA 2003.

[53] In some sectors, such as bookstores, the authors found a small retailer's best strategy might be to locate near a big box outlet, but to provide specialized or niche products in order to benefit from the increased traffic associated with the large-format store.

[54] Question commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey, 2003.

The CSCA also notes that power centres (and power nodes), which are becoming more common in suburban areas, are less community-oriented than traditional shopping centres, many of which are located in older urban or suburban areas and are struggling to compete with the new formats. In general, shopping centres traditionally offer a wide range of community-oriented services, such as medical clinics, post offices, licensing offices and libraries, and local events, such as art fairs and antique shows. Power centres (and power nodes) do not commonly offer these services.

Small businesses are particularly worried about the market dominance of large retail competitors and their potential ability to dictate terms in the supply chain. However:

> [for] consumers, the tough negotiating stance with suppliers may mean better prices at the stores. In today's competitive environment, with fewer but larger players, being aggressive with suppliers in negotiating … discounts means retailers can pass those savings along to consumers (Olijnyk 2000, C1, C9).

To date, evidence suggests that the current level of concentration has not harmed consumers in any significant way. In analyzing the closure rates of smaller stores (as a result of competition from big box retailers) in the GTA, CSCA concludes:

> The statements that can be made about competition are somewhat complex. There are fewer banners playing in these spaces. But most of these large players are aggressively competing in terms of what they carry, the prices they charge, the hours of business, etc. So there are fewer competitors, who are more competitive.[55]

It appears that consumers are largely unaware of the concentration in the retail sector. While they are aware of the demise of local independent stores, as noted above, the same public opinion research reveals that Canadians believe there is more choice of grocery stores than there was five years ago, even though the market in reality has become more concentrated. Generally, this opinion holds true after controlling for age, community size, household income and other socio-demographic variables. Researchers from CSCA believe that one probable reason behind consumers' opinion about choice is the increase in the number of banners (store names) that each chain has in areas such as the grocery sector.[56]

Research opportunities

Foreign and large retailers have brought about a number of significant changes in consumer shopping. While many academic studies in the last decade have focussed on the business perspective of the Canadian retail landscape, more research on the effects on consumers of the increasing number of foreign and large retailers would be useful, including quantitative research on prices, product selection and choice of suppliers.

Other research could include the effect of the homogenization of the shopping experience on regional cultural identities (including a review of the impact of the increasing number of franchise store operations), the effect of the growing non-Canadian retail presence on Canadian identity, the impact of the demise of local independent stores on access to culturally specific goods and services for a diverse population, the effect of innovative retail formats on security (e.g. food security and just-in-time inventory management), the rise of private label brands and their impact on consumers, the effect of power nodes on consumer choice for transport-challenged and low-income shoppers and inner city dwellers, and the environmental impact of big box stores and of regional and suburban shopping.

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[55] CSCA reply to questions from Industry Canada, April 9, 2003.

[56] For example, Loblaws Companies Ltd. operates grocery stores across Canada under various banners including Loblaws, Provigo, SuperValu, The Real Canadian Superstore, Cash & Carry, No Frills, Maxi and Valumart.

Analyzing the long-term effects on consumers of increased concentration in the retail sector is complex, currently subject to different views, and certainly difficult for individual consumers to assess.

2.2 The Increasing Use of Technology in Stores

The development of various kinds of in-store technology in recent decades has led to new in-store services. These technological innovations include the widespread use of bar codes and point-of-service price scanning, related tools such as interactive kiosks, as well as emerging applications based on radio frequency identification (RFID) tags. With these technologies, retailers can manage stock in a more efficient and effective manner and, at the same time, allow customers to conduct transactions or obtain product information and service with minimal assistance from store employees. And, according to a recent survey, Canadians are willing to shop at stores with in-store self-service technology.[57]

The new in-store technology undoubtedly provides a number of benefits to consumers in the form of greater efficiency and cost savings in the distribution system. It also potentially enhances consumers' control over the way they shop, and particularly how product information can be obtained in the store. When this technology is linked to computer-based loyalty programs (in which customers provide information concerning their shopping habits by using a magnetic strip-encoded loyalty card that is "swiped" at the time of purchase), customers can be rewarded for making purchases in the form of discounts on later purchases or free products. These developments also raise significant concerns, however, particularly concerning the ability of retailers to collect, process and track the purchasing habits of consumers. Changes in the in-store shopping experience may also prove challenging for those who are less adept at dealing with new technologies, thereby contributing to the so-called "digital divide."

Bar codes and scanners: cost savings to retailers and a wider range of products

The use of Universal Product Codes (UPCs), commonly known as bar codes, on products is one of the most significant technological innovations in the retail sector in the last 20 years (Nantel 2003). UPCs made their first appearance on product packaging in 1974 and are now found on nearly 90 percent of consumer products sold in Canada.[58] Together with electronic data interchange systems, bar codes have facilitated the introduction of just-in-time delivery in supply chain management. This, in turn, has meant significant costs savings that can be passed on to consumers in the form of lower prices. In the U.S. grocery industry alone, it is estimated that bar codes provide savings of $17 billion per year (Peters

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[57] Sixty-four percent of those polled said they would be willing to shop at stores with in-store self-service technology that allows them to conduct transactions or obtain product information and service without the assistance of a store employee (Ipsos-Reid 2002a).

[58] Electronic Commerce Council of Canada; reported in Nantel 2003.

2002, 66–67). Bar code technology improves the management of voluminous supplies and gives consumers a wider range of products in a store.[59] Furthermore, with the enhanced sales information provided by bar codes, suppliers and retailers have explored advanced planning and forecasting tools. For one U.S. drugstore chain, use of these tools has resulted in a 65 percent reduction in the problem of stores running out of stock (Global Logistics 2002), which has benefited consumers and retailers alike.

Faster and more accurate checkouts

UPC-related technology has also led to the increasing use of price scanners at the checkout, and right from the early days of their use, customers recognized the benefits in terms of time savings. Ongoing improvements in this technology have further cut waiting times at the cash register, which is especially important when shopping at large high-volume retailers. With Wal-Mart's 65 million transactions each week, for example, cutting just one second off each transaction represents global time saving of 18 000 hours (NCR Corporation 2004). Bar code technology also benefits consumers by generally improving data entry accuracy. A 1996 study in Canada found an average error rate of 6.3 percent, which was at the lower end of findings in other studies (4 to 16 percent rate of error) when cashiers entered prices manually (Competition Bureau 1999).

Use of the bar code/scanner system has not been without some problems, however. In the 1990s, for example, Quebec retailers discovered that provincial legislation that required them to affix price labels on every product created "huge problems, particularly for big box stores and grocery stores that ... relied on electronic shelf labels" (Wintrob 2002). One Quebec retail association said not only was the obligation to label "time-consuming and disruptive ... it wasn't supportive of new scanning technologies on the market" (Wintrob 2002). At the same time, government and consumer studies continued to document errors with automated price scanning.[60] Major Quebec retail associations persuaded the Quebec government to exempt retailers that did not price label individual products from the legislation requiring them to do so, if they instituted a policy entitling customers to a discount of up to $10 if a consumer discovered a price discrepancy at the cash register (Wintrob 2002).

Shortly after, the new national Scanner Price Accuracy Voluntary Code was developed by major retail associations, working in cooperation with the federal Competition Bureau, to apply to retailers in all jurisdictions except those which, like Quebec, have specific legislation requiring individual price labelling (Wintrob 2002). As with the Quebec initiative, this voluntary code sets the terms whereby a consumer is compensated when a scanner price error occurs for a non-priced item. In such a case, the item is either offered without charge or with a discount, depending on its price.[61] However, relying on consumers to track the prices of individual items and subsequently verify these prices at the cash register may be problematic in certain circumstances. For example, when many purchases are made (e.g. a week's worth of family groceries), there may be pressure to quickly process the transaction, thus limiting a consumer's opportunity to review each item's price. A number of emerging technological developments may also prove challenging in this respect. With checkout scanners capable of reading multiple bar codes simultaneously (NCR Corporation 2003), it could become even more difficult for people at checkout lines to verify that all items have been scanned at the correct price. Automated self-checkouts, which have been introduced in some Canadian stores over the past couple of years, may present similar challenges.

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[59] Without bar codes and scanning, the number of items carried by supermarkets would likely not have risen as fast as it has over the past two decades. For example, the median number of items carried by U.S. supermarkets rose from 15 000 in 1980 to 27 000 in 2001 (Martinez and Stewart 2003).

[60] See, for example, De Lisle and Abel 1997; also Competition Bureau 1999.

Other in-store information tools

Interactive consumer information kiosks are another application of information-processing technology in stores. Kiosks are self-standing structures that often include a computer and touch screen for capturing and displaying information and, in some cases, processing orders. These devices are based on 1980s touch technology, and new applications have grown rapidly since the late 1990s with the Internet (Mulroney 2000, E15). Kiosks have appeared in a number of retail environments in various forms and have facilitated consumers' shopping experience. Examples of such kiosks include gift registries (reported in Nantel 2003),[62] music sampling stations (Canada NewsWire 2000)[63] and check-ins at airports (reported in Mulroney 2000). Fast food restaurants are also experimenting with automated ordering stations (Harmon 2003). With these practical applications, kiosks offer consumers convenient and faster value-added interactive services. Kiosk terminals have also been used in retail stores to give consumers a greater range of choices than can be physically made available in the store. For example, kiosks used by Staples in the U.S. are reported to provide customers access to an inventory of 100 000 items, compared to the 9000 items found in a typical Staples store (*Chain Store Age* 2001). Such in-store technology is a great boon to customers who, for one reason or another, do not have access to the Internet.

RFID tags to replace bar codes

A much anticipated change in the retail industry today is the likely replacement of the current bar codes with "smart labels" using RFID. This technology will permit the storage of detailed information about individual products and allow that information to be looked up as needed via the Internet (*The Economist* 2003). Projections regarding the use of RFID tags have been increasing, given that their bulk price of less than US$0.10 is beginning to make them a viable alternative to bar code stickers (Boutin 2003, A15) and that major retailers have started announcing plans to integrate RFID labels in their supply and distribution systems (Jones 2003). The scope of functions offered by this new labelling technology could significantly increase inventory management efficiency (with potential savings passed on to consumers)[64] and create a number of other indirect benefits. Its enhanced object locating capacities could mean less frustration for passengers who have lost baggage during air travel,[65] and would enable businesses to respond more quickly to product recalls.[66]

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[61] See Scanner Price Accuracy Voluntary Code: Code of Practice (2002), available at **competition.ic.gc.ca/epic/internet/incb-bc.nsf/en/ct02381e.html**

[62] The Hudson's Bay Company has experimented with terminals for a bridal gift registry: products one wishes to receive as gifts are scanned and recorded in an accessible database.

[63] Web Bar Listening Posts in certain stores offer Internet access to a database of song samples from virtually any compact disk in the store just by scanning the CD's bar code.

RFID tags are expected to shift the development of bar code applications from a largely supply-driven focus (e.g. better inventory management) to more customer-oriented applications. As summarized by one analyst, "[while] everyone knows what bar codes are for, consumers just haven't been on the side that reads them" (Burden 2000). By enabling "on the spot" transmission of information, RFID tags and the development of handheld bar code scanning devices will allow consumers to check the price of an item (to make sure it matches the shelf price) and to keep a running total of a basket of goods (Indiana University–KPMG 1999). These applications could facilitate much better comparison shopping (of stores and products) by enabling consumers to "download" detailed information about a product by scanning its tag and accessing wireless telecommunication services.

These projected applications are seen as setting the stage for "significant shifts in power between consumers, retailers, manufacturers and on-line merchants … for example, widespread use of wireless handhelds may turn every bookstore on earth into a showroom for Amazon.com" (Microsoft Research 2000). Furthermore, "the most mundane but essential element of shopping, the label, raises interesting new political issues in a world of wireless devices," since the ability to both read object tags and connect to the Web for additional information could one day make "it possible for consumer decisions to be influenced at the point of sale by a range of viewpoints that are not now widely heard" (for example, the genetic modification of food or the labour conditions among clothing manufacturers; Microsoft Research 2000).

Protecting privacy and personal information

New product information technology allows for more than just better inventory and accounting. It gives retailers a powerful marketing tool for analyzing sales based on variables such as location, season, hour, price and promotions (Nantel 2003). Combined with consumer information profiles (available, for example, through loyalty card programs), data gleaned from bar code systems tell retailers what types of consumers are buying certain products and in what circumstances. Information that a retailer obtains through a customer loyalty card program can be very extensive (see text box on loyalty cards). When a company can cross-reference both the socio-demographic profile of its customers (age, sex, etc.) and their spending patterns (transaction information about products or services purchased), it can personalize its marketing communications in a way that is likely to be less costly and more profitable than traditional mass media methods (Nantel 2003).

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[64] Studies have found that RFID systems can improve demand planning forecast accuracy by 20 percent, decrease inventory by 30 percent and cut distribution centre labour costs by up to 40 percent. See Renshaw 2003. Analysts have estimated that "Wal-Mart could save $8.4 billion a year by 2007 by installing RFID in many of its operations." See Khermouch and Green 2003, 42.

[65] The programmable characteristic of RFID tags could allow for an alarm to sound when luggage is being loaded on the wrong plane. See IBM Global Services 2001.

[66] A tire maker "is experimenting with RFID technologies that allow it to hunt down products in the case of defects or a recall." See Hines 2003.

Canadians, however, do not appear to be entirely comfortable with the personalized marketing approach. While a slight majority (51 percent) of respondents surveyed in 2001 indicated that they did not mind if companies they do business with keep track of their purchases, a significant proportion (41 percent) objected to it. When asked specifically if they were comfortable with a company using their personal information to advise them of new products or services that may be of interest to them, Canadians were just as likely to agree as disagree (at 38 percent) (see Ekos Research Associates 2001).

The prospect of using RFID tags also raises a number of questions about the potentially pervasive nature of the two-way communication made possible with the tags. For instance, concerns have been voiced about the extent of information on customers' behaviour that RFID tags could communicate even after the consumer has left the retailer's premises. Such privacy concerns have been heightened by some recent reports of RFID tests planned or conducted by businesses. In a trial run by a U.K. supermarket chain, for instance, it was reported that "the store was automatically taking photographs of shoppers when they picked up a package of Gillette razor blades from the shelf" (Canton 2003, C3). A similar test was reported at a U.S. Wal-Mart store (Wolinsky 2003). Another retailer was boycotted when it revealed that it was considering placing millions of RFID devices in its clothing products to help track inventory (Chai and Shim 2003). Analysts have noted that while "any new technology has certain risks, more controls are needed with wireless information access because an open signal is inherently less secure" (reported in Germain 2003). This has led advocates to demand the mandatory labelling of products containing RFID chips, for example (CASPIAN 2003).

"Digital divide" also a risk

As retailers increasingly adopt self-service technologies (such as self-checkout counters in grocery stores), customers who are less comfortable with these options may face substandard service. Age is often considered a barrier to a consumer's adoption of new technologies. Survey results indicate that while 77 percent of Canadians ages 18 to 34 would be at least somewhat likely to shop in stores that offer self-service technologies, the acceptance level falls to only 45 percent among those 55 years of age or older (see Ipsos-Reid 2002a).

Loyalty cards: What is consumers' personal information worth?

Loyalty programs represent another noteworthy retailing trend of the past two decades, in which product-scanning technologies (using chip-based cards) have played a key role in the development of the most popular programs.[67] These programs offer free items, discounts and various forms of benefits to consumers. The proportion of Canadians who belong to a frequent user/loyalty program has increased continuously since 1993, from fewer than 40 percent (Millward Brown Goldfarb 2002) to 67 percent in 2003 (Millward Brown Goldfarb 2003). However, when asked if they are aware that many of these programs collect, use and disclose information about an individual's purchasing habits so that companies can target them with new products and services, a majority of those participating in the programs said they were unaware (54 percent) or only vaguely aware (16 percent) of these practices (Ekos Research Associates 2001). Therefore, it is not evident that consumers are making informed decisions when subscribing to loyalty programs, and some analysts have questioned whether consumers actually receive sufficient value for the personal information they give to business.[68]

Research opportunities

While bar codes are now in common use in retailing, the ongoing evolution of scanning technologies will require further consumer-focussed analysis of how they are likely to either facilitate or challenge consumers' self-checking of prices. Furthermore, it would be useful to pursue analysis of the impact of these emerging technologies, particularly to better understand how they change retail competition and the ways in which some of the savings might be passed on to consumers. The most significant research subject, however, is privacy, since the RFID debate fits within a broader one in which, as noted in the context of a California state legislative hearing, "the major questions relate to sharing of digital information, however that information is collected" (Vijayan 2003).

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[67] Such as Air Miles, Club Z/HBC, Shoppers Drug Mart.

[68] In one reported example, $1100 worth of purchases were required to obtain a reward with an approximate retail value of $0.90. See Menzies 2001.

2.3 The Internet and the Consumer Marketplace

Convenient access and anonymity can be a dangerous combination!

Canadian youth are a "connected" generation. Virtually all students ages 9 to 17 surveyed in 2001 reported using the Internet at times (Media Awareness Network and Government of Canada 2001, 15). While the main online activities of young people are related to entertainment (downloading music, using e-mail, playing video games, etc.) and school work, 5 percent reported using the Internet for shopping or making purchases (Ibid., 25). However, the convenient access and anonymity of the Internet can prove to be a dangerous combination for young Canadians. Surveys show that more than half (52 percent) of children searching the Internet have accidentally ended up at a pornographic Web site, usually when looking for something else or typing in the wrong URL (Ibid., 63). More than a quarter (26 percent) have deliberately visited pornographic Web sites (Ibid., 64). Some 45 percent have been exposed to a violent or gory Web site (Ibid., 66) or received unwanted sexual comments (46 percent) (Ibid., 76). Parental supervision of their children's Internet activities can be a difficult challenge.

A growing number of Canadians are using the Internet for a variety of consumer-related functions. The Internet provides many potential benefits, including added convenience and greater access to information as well as goods and services. It has also had an important impact on traditional pricing methods, although there is limited evidence currently available regarding its overall impact on prices. Some concerns have arisen about the accuracy of information on the Internet, the security of transmission of personal and financial information and other consumer protection issues, such as cross-border redress in the context of electronic commerce. Furthermore, not all consumers share equally in the benefits of the Internet, since some are unfamiliar with, or do not have access to, computer technology.

Nonetheless, the proportion of Canadian households with at least one regular Internet user[69] increased from 29 percent in 1997 to 62 percent in 2002, with the home being the most common location of Internet access (Statistics Canada 2003a). Through the Connecting Canadians initiative, the federal government aims to make Canada the most Internet-connected society in the world.[70] As the technology evolves and improves, familiarity with it also increases: in 2003, 62 percent of Canadians reported having used the Internet for more than two years, up from 38 percent in 2000 (Ekos Research Associates 2003a). Furthermore, Canadians who are Internet users have been using it more frequently: in 2003, 71 percent reported being daily users, up from 54 percent in 2000 (Ekos Research Associates 2003b). In an international survey on Internet use, 62 percent of adult Canadians reported having used the Internet in the previous 30 days, second only to the United States (72 percent of the general adult population), and well ahead of the third-most Internet active nation, South Korea (53 percent) (Ipsos-Reid 2002b). However, the general increase in Internet use has recently slowed. According to Statistics Canada, the number of households with at least one person using the Internet regularly in 2002 was up by only 4 percent over 2001. The growth rate in 2001 was 19 percent and in 2000, 24 percent (Statistics Canada 2003a).

While Canadians' primary online activity continues to be the use of e-mail, an increasing proportion of those online have been using it for consumer activities. According to 2002 survey data, slightly less than half (47 percent) of Internet-using Canadians had comparison-shopped online. Of these, 19 percent had done this at least once during the previous week and 70 percent had done so at least once during the last month (Ipsos-Reid 2002c). Canadians seem particularly interested in using the Internet to get information about high-cost items such as automobiles, personal computers and electronics, but much less so for actually purchasing these things (see Figure 2.3). Nonetheless, the success of companies such as Dell, which has a retail presence but is primarily known for its original business model of selling customized computers directly to consumers via the Internet, shows the potential for an Internet business model for selling expensive products. While 39 percent of Internet users reported making at least one online purchase in 2002, only 9 percent of online shoppers had made at least one purchase in the previous week (60 percent had made an online purchase in the previous month) (Ipsos-Reid 2002c). In general, Canadians appear to be comfortable buying a number of goods online, especially those of relatively low cost, such as books, music, software and clothing (see Figure 2.3).

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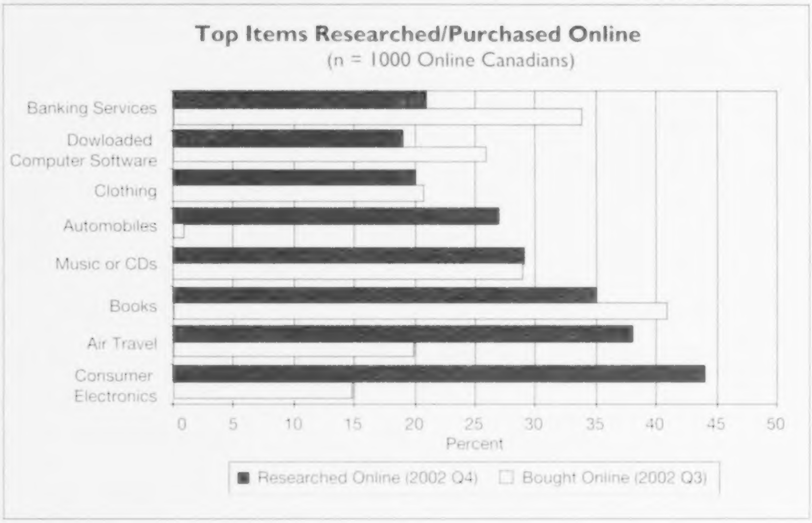
[69] Statistics Canada's definition of "regular" is quite broad. A "regular use household" includes all those who responded affirmatively to the question "In a typical month, does anyone in the household use the Internet from any location?"

[70] See, in particular, the discussion of Canada's SchoolNet and the Community Access Program at **connect.gc.ca/pub/index.html?iin.lang=en**

FIGURE 2.3



Source: Ipsos-Reid, Canadian Inter@ctive Reid Report, fourth quarter, 2002.

The Internet gives the consumer the edge

Information empowers consumers, helping them in the negotiation process. Researchers note that, from a consumer's perspective, "one of the most important advantages of Internet-based electronic shopping environments relative to traditional, bricks-and-mortar retail settings is the drastically reduced cost of search for information about market offerings" (Trifts and Häubl 2003, 149).

The Internet provides instant access to product information (description, price, availability) and can facilitate rapid and extensive searches that would otherwise not be possible.[71] Economies of scale justify higher investments in time spent researching product and retailer information for expensive products. Not surprisingly, then, a number of high-cost consumer retail sectors have been adjusting to consumers' newfound information edge, even though final transactions still occur mainly in the merchant's bricks-and-mortar site (see text box).

The Internet has changed the way cars are bought

More and more consumers are turning to the Internet for information about vehicles. A 2003 survey of 1000 Internet-connected Canadians reveals that almost two thirds had at some time searched for new or used vehicle prices, features or related information online (Ipsos-Reid 2003b).[72] Automotive industry analysts state categorically that "over the past five years, the Internet has been a catalyst for change in the automotive shopping process. ... What we're seeing today are consumers that are more empowered than ever before and a dealer body more receptive and responsive to them" (Power 2002). The main advantage of the Internet to consumers is readily available information to compare vehicles and prices.[73] Before negotiating with a dealer, customers now use online information to determine a reasonable trade-in value for their used car or to negotiate a better price for a new vehicle. This contrasts with the more traditional business-consumer practice, by which "motor vehicle dealers zealously guarded information such as dealer invoice costs to preserve profit margins" (Geist 2000).

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[71] See, for example, Olsen 2003, which reports on **Amazon.com**'s recent introduction of a tool that lets people search the entire text of many books it sells.

[72] An online Canadian has been defined as "a Canadian adult who spends at least one hour online per week."

[73] This was the greatest advantage reported by 42 percent of Internet users who used the Internet as a vehicle-buying resource tool (see Ipsos-Reid 2003b).

Internet music pricing will never be the same…

The music sector has been heavily affected by technology. Industry profits have suffered, originally due to Napster, and more recently as a result of other peer-to-peer file-swapping services. Millward Brown Goldfarb states:

> 44 percent of 18–24 year olds with Internet access say they download music at least *once a week.* The legal action that resulted in the shutdown of Napster has not slowed the increase in file swapping in recent years. While music companies claim that file swapping infringes on their copyrights, most young Canadians have no moral qualms about downloading music files without paying for them (Millward Brown Goldfarb 2003, 1–19).

From a pricing perspective, the music industry has reacted to this in a number of ways. For example, Apple's iTunes has had success: this $0.99-a-tune system avoids monthly subscription pricing and instead responds to market research indicating that U.S. consumers prefer a price per download (Blackwell 2003). The industry has also attempted to adapt with significant price cuts on CDs in an effort to boost traditional sales (Hamilton 2003). In summary, while the music industry's post-Internet business model has yet to be finalized, one emerging trend is that "the main currency of the record industry is becoming the song instead of the album" (Leblanc 2003, 40).

Greater and more convenient access to the marketplace

Compared to looking through a catalogue or visiting a retail store, the Internet offers consumers a number of advantages. For one thing, the online marketplace is available 24 hours a day, seven days a week, which is very convenient for today's generally time-constrained households. Furthermore, the Internet enhances consumer choice in a number of ways. For example, consumers can often examine far larger inventories than are available at store locations. And given Canada's geography, by using a Web site, consumers can easily interact with specialized non-chain sellers across Canada, or internationally. This helps consumers looking for hard-to-find items that are unavailable in their immediate vicinity. Furthermore, certain online business models have emerged to facilitate consumer-to-consumer transactions well beyond what was once feasible. For example, while not all offers may be from individual consumers, 14.4 million articles were available through eBay's online auction Web site (on November 23, 2003), which is many times more than what one could find in newspaper classified ads.

The Internet is affecting traditional modes of pricing

For centuries, bartering was the mode of pricing used in transactions, but with the industrial revolution and mass production, fixed prices became necessary to manage the enormous increase in both volume and variety of products sold over far larger geographic regions (Gressens and Brousseau 1999). As the Internet develops, however, dynamic pricing that varies by transaction is expected to become more pervasive.[74] Consumers are already exposed to some forms of dynamic pricing, for example, of airline tickets, for which prices of otherwise identical tickets may vary depending on when a consumer buys them. Dynamic pricing on the Internet may offer consumers benefits when they plan their online purchases in order to obtain the optimal price, and they can do so from home. Internet users have accepted some forms of non-fixed prices, such as on eBay, where consumers bid on products, and at reverse auctions such as **Priceline.com**, where consumers state a price that they are willing to pay. However, broader dynamic pricing on the Internet may prove to be a tough sell, based on the negative consumer reaction generated by **Amazon.com**'s random testing of varying prices to consumers. "There is a huge opportunity, as Amazon saw first-hand, to engender bad faith among customers" as "some, in fact, think companies have a responsibility to offer uniform prices" (Flynn 2001).

The Internet may affect pricing in other ways as well. Perhaps the best example is in the music industry. The ability of the music industry to package and sell sets of songs in albums (when consumers are interested in only one of the songs), and to control the post-purchase reproduction of those songs, has been put to the test by technologies associated with the Internet. This has prompted the music industry to adopt different packaging and selling strategies (see text box).

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[74] According to one account, "price discrimination is expected to become more pervasive, not only because so much personal data are being collected in on-line commerce but also as technology, in the name of protecting copyrights, limits what people can do with on-line content" (Associated Press 2003).

While consumers have accepted less traditional forms of pricing in some instances, at least one assessment of the Internet's general impact on prices is ambiguous. This empirical study notes:

> The review of the literature tends to indicate that the Internet has had a major impact on business practices, but there is no convincing evidence that prices are considerably cheaper on the Internet even for commodity products. Many companies are avoiding the price sensitivity trap by resorting to marketing tactics such as concentration on niche markets [and the] creation of brand image and trust… (Riquelme 2001, 263–272).

Nevertheless, some research suggests that the Internet has led to lower prices in the United States for certain types of goods and services. A study published in 2000 reported that the emergence of online insurance quotes significantly lowered premiums for term-life insurance, while reductions in premiums were not forthcoming for similar services not offered on the Internet, cash value policies, for example (Brown and Goolsbee 2000). Another author, commenting on his study of the Internet's impacts on term life insurance, suggests that:

> Industries most likely to experience increased price competition are those that have historically been able to charge higher prices because consumers found it difficult or expensive to compare prices. I would not be surprised to find similar results in markets for other financial services, such as auto insurance or mortgages, although no such evidence yet exists. Our hope is that this work will spawn additional studies examining price effects in other markets (Daniloff 2003).

The Internet also has provided more opportunities for consumers to communicate among themselves regarding their experiences with and opinions of products, companies and business practices. Consumer sharing of feedback about products has been encouraged and promoted by some retailers; for example, **Amazon.com** publishes consumer reviews of books on its Web site. It also has taken place on Web sites beyond the immediate supervision of the retailers concerned.[75] The Internet holds considerable promise as a way for consumers to communicate their views to fellow consumers and others, although it is difficult to predict the exact form this communication may take.

Evaluating the information found on the Internet

With the Internet, consumers can easily and quickly retrieve more information than ever before, but this increased access presents challenges. Anyone with a computer and modem can become an electronic publisher on the Internet, disseminating information to a global audience. So while this new medium explodes with information, it also poses a problem: How do you evaluate the quality of the information? Just because a document appears online does not mean it contains valid information. Rather, online information demands very close scrutiny.

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[75] See, for example, the "Complaint Station," at **www.complaintstation.com**

Sometimes the consequences of acting on incorrect or outdated information can be serious (for example, with medical, legal or professional advice). Furthermore, in addition to sorting through information of poor quality or from a questionable source, consumers must also guard themselves against information that is *deliberately* inaccurate. Statistics on Internet fraud are difficult to obtain in Canada, but some American sources suggest it is growing rapidly. The National Fraud Information Center (a project of the non-profit National Consumers League) reported about 10 525 Internet fraud cases in the U.S. in 1999, with total losses of $3 262 834.[76] By 2002, the number of reported cases of fraud had tripled to about 31 299 and losses more than quadrupled (to $14 647 933).[77] In addition, the U.S. Internet Fraud Center (jointly run by the National White Collar Crime Center and the Federal Bureau of Investigation) reports that the number of fraud complaints increased from 16 775 in 2001 to 48 252 in 2002,[78] with dollar loses increasing from US$17 million to $54 million during this period (National White Collar Crime Center and the Federal Bureau of Investigation 2003, 3–4). The report notes that this fast-growing trend may represent the combination of a higher rate of victimization and a greater likelihood of American consumers filing complaints.

Ensuring privacy for personal and financial information

Public opinion data reveal that more Canadians than ever are concerned about Internet security and privacy issues in general, with 71 percent reporting being "very concerned" or "somewhat concerned," up from 61 percent in 1998 (Millward Brown Goldfarb 2003, 8-27). Various sources attribute this growing trend to a number of factors, including high-profile viruses circulating on the Internet, privacy violations by businesses and governments reported in the media, the increasing presence of "anti-spyware" advertising online and general concerns with the security of data transmitted online.

In April 2003, about one in three Canadians reported a breach of personal information they submitted online, up significantly from 18 percent reported in December 2002 (Ipsos-Reid 2003a). By far the most common complaint cited by those reporting such a breach in 2003 was receiving unwanted e-mail (95 percent), but 29 percent reported having their personal data sold or transferred to a third party (Ipsos-Reid 2003a). According to a 2002 survey, more than three quarters of households that paid online during that year indicated that they were concerned, or very concerned, about financial transactions conducted over the Internet (Statistics Canada 2003b). It appears that Canadians are concerned not just with how information is transmitted, but also how it is stored or used once it has been sent:

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[76] See **www.fraud.org/internet/2003stats.htm**

[77] See **www.fraud.org/2002intstats.htm**

[78] These figures refer to the number of fraud cases forwarded to law enforcement agencies on behalf of victims and not to total complaints.

> When asked how concerned they are with various aspects of submitting personal information on-line, Canadians indicate that they are most concerned with the security of databases that house credit card numbers (60 percent are very concerned), followed by 58 percent who say they are very concerned about their credit card information being used for non-authorized transactions once it is in the database of the retailer, and 57 percent saying they are very concerned about their credit card information being intercepted in transit while they are making an on-line purchase (Ipsos-Reid 2003a).

Issues related to complaint handling and dispute resolution

Statistics Canada reports that Canadians spent $884 million, or about 37 percent of their electronic commerce dollars, at non-Canadian Web sites in 2002 (Statistics Canada 2003b). When dealing directly with foreign vendors, Canadians are exposed to greater risks than when buying from a Canadian retailer. Foreign businesses operate under different laws and different court systems, potentially making redress complicated and costly. Furthermore, a consumer's provincial/territorial consumer protection agency may not be able to help much when the vendor is located abroad, that is, when there is no physical representative of the business in the consumer's area, so there are, for example, no permits to revoke. When dealing directly with foreign vendors, consumers also must ensure that products meet Canadian safety standards and related laws. Gathering product information can be all the more complex when the vendor is in a country substantially different from Canada.

The "digital divide"

The term "digital divide" refers to the inequality of access to the Internet among the general population, and thus the inability of many people to take advantage of its benefits. Several factors are associated with lack of access to the Internet, with the most prominent being age, income and primary language.[84] Older Canadians are much less likely to report having access to the Internet: 22 percent of households headed by seniors reported access in 2002, compared to 75 percent of households headed by individuals younger than 35.[85] This may be partly due to the lack of familiarity of older persons with this technology and also the general format of online information, which may be a physical barrier for elderly Canadians and persons with disabilities. The differences in access according to income are equally pronounced: 88 percent of households in the top quartile report access to the Internet in 2002, compared to only 33 percent in

The challenging task of addressing cross border consumer protection issues

Governments are developing harmonized responses to facilitate cross border online consumer sales. In Canada, federal, provincial and territorial ministers responsible for consumer affairs endorsed the *Internet Sales Contract Harmonization Template* in 2001; since then it has been implemented in a number of jurisdictions.[79] Model legislation is being developed by the Uniform Law Conference of Canada to address the issue of which jurisdiction's legislation applies to cross-border sales.[80] Internationally, the United Nations Commission on International Trade Law, with initiatives such as its *Model Law on Electronic Commerce*[81] and the *Hague Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters*,[82] are developing rules to address Internet applications. The Organisation for Economic Co-operation and Development (OECD) approved, in late 1999, voluntary guidelines for consumer protection in electronic commerce (see OECD 1999) and cross-border fraud (see OECD 2003). Canadian governments are also working with industry and consumer groups to develop consumer protection e-commerce guidelines and voluntary codes for use by online merchants,[83] and federal-provincial-territorial ministers responsible for consumer affairs approved a voluntary code of practice in January 2004.

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[79] See **strategis.ic.gc.ca/epic/internet/inoca-bc.nsf/en/ca01642e.html**

[80] See **www.ulcc.ca/en/cls/index.cfm?sec=4&sub=4k**

[81] See **www.uncitral.org/english/texts/electcom/ml-ecomm.htm**

[82] See **www.hcch.net/e/workprog/jdgm.html**

[83] See **cmcweb.ca/epic/internet/incmc-cmc.nsf/en/fe00064e.html**

[84] Education is another factor with respect to the digital divide, but this is highly associated with income.

[85] Statistics Canada: **www.statcan.ca/english/Pgdb/arts54a.htm**

the lowest quartile.[86] Affordability is certainly an issue, as only 25 percent of those in the lowest quartile reported having access from home, compared to 78 percent of those in the highest quartile.[87]

2.4 Technology's Role in Changing Financial Services

Automated banking machines (ABMs), point-of-sale debit cards and online services are three examples of how various new technologies are revolutionizing the way consumers access and spend their money. But while many Canadians have enjoyed more convenient access to their money, there are costs, liability risks and other consumer protection concerns associated with these technologies. Furthermore, as financial institutions continue to offer new and diversified technological options, some questions have arisen regarding how well consumers who rely on (or prefer) traditional in-branch banking services are served.

Automated banking machines

Compared to 20 years ago, consumers have significantly greater access to their money, partly due to an increasing number of ABMs. Between 1982 and 2002, the number of bank-owned ABMs increased from 965 to 16 546.[89] Quick access to money was greatly helped, in particular, by the creation of Interac in 1984, which allows cardholders to make withdrawals from any ABM on the network.[90] The significant increase in access locations is reflected in public opinion data: 91 percent of adult Canadians reported that they used a bank machine in 2003, up substantially from 64 percent in 1992 (Millward Brown Goldfarb 2003). In fact, more Canadians today use ABMs as the main way to conduct their financial transactions (40 percent in 2002) than use a teller (30 percent) (CBA 2002).

The use of debit cards

Besides getting their money from ABMs, Canadians have also adopted frequent use of point-of-sale terminals since Interac Direct Payment (IDP) became available nationally in 1994[91] (see Figure 2.4). Debit cards represent the most frequent method of paying for retail transactions among Canadian ABM cardholders today, increasing from 15 percent of cardholders in 1996 to 49 percent in 2002. By 2000 — within six years of being introduced nationally — IDP transactions had replaced cash as the primary payment method used by ABM cardholders, and by 2002 cash was the primary method of payment used by only 31 percent of ABM cardholders.

Research opportunities

Given the Internet's already substantial impact on the interaction of consumers with the marketplace, more research will be required as applications using this technology evolve. How the pricing of various goods and services may be changing as a result of Internet use is one topic that needs attention.

As more is understood about the value-added and empowering use that Canadians make of the Internet in their consumer decisions (online activities, including researching and purchasing), the consequences for the "unconnected" will also need to be further examined. The concrete benefits may, in fact, need to be better communicated to Canadians, in light of recent work suggesting that, beyond cost considerations, a number of non-Internet-users may also be constrained by a lack of interest in the Internet.[88]

In addition, while the difficulties of assessing the accuracy of online information have been well described, solutions have yet to be fully developed and implemented. And similar problems exist when addressing the security and privacy of information once it is transmitted, and the cross-border consumer protection issues that may increasingly arise as the proportion of regular online shoppers continues to rise.

Canadians are leaders in use of ABMs

International data for 11 countries reveal that, on a global scale, North Americans have greater access to, and make more significant use of, ABMs than citizens in other countries. For example, in 2001 Canada had the highest number of ABMs per million inhabitants (1142, followed closely by the U.S. with 1137), and made the largest number of ABM transactions per person (47.8, and 47.7 for the U.S.).[92]

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[86] Statistics Canada: **www.statcan.ca/english/Pgdb/arts56a.htm**

[87] Statistics Canada: **www.statcan.ca/english/Pgdb/arts56b.htm**

[88] Dryburgh 2001 reports that only about one quarter of Canadians surveyed in 2000 that had not used the Internet in the last 12 months were interested in using it.

[89] Figures are based on an aggregate total for eight banks. Source: Canadian Bankers Association, available at **www.cba.ca/**

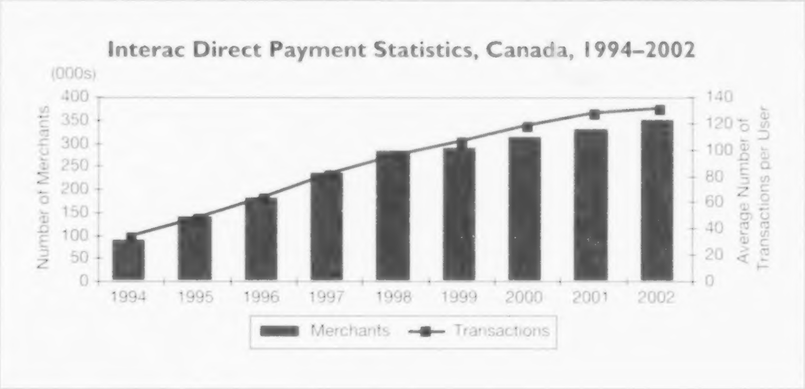
[90] Interac Association, available at **www.interac.org/en_n2_01_milestones.html**

[91] Ibid.

[92] Interac Association, available at **www.interac.org/en_n3_31_abmstats.html**

Canadians, in fact, rank as the undisputed world leaders in debit card use, making 71.7 debit transactions per person in 2001, which is significantly more than consumers in the next closest country (France, at 60.3). The average value of a debit transaction in Canada (US$27 in 2001) was the lowest in an 11-country comparison, with Japan (US$405) and Switzerland (US$100) markedly standing out.[93] Thus, compared to consumers in other countries, Canadians appear to be using their debit cards more often, even for frequent low-cost transactions.

FIGURE 2.4



Interac Direct Payment Statistics, Canada, 1994–2002

Source: Interac Association.

The use of online banking

The use of online banking has also increased in Canada recently. In a 2002 survey of adult Canadians, one quarter of respondents said they had done an Internet banking transaction in the previous month, up from 19 percent just a year before (NFO CF 2003). Public opinion research reveals that, in 2003, virtually all Canadians (97 percent) who bank online viewed this technology positively (Millward Brown Goldfarb 2003). Furthermore, in 2002 the Canadian Bankers Association (CBA) reported that 16 percent of Canadians used online banking for most of their financial transactions, up from 8 percent in 2000 (CBA 2002). The data also suggest that the increase in online banking has come at the expense of ABMs and telephone banking, while there has been virtually no change in the percentage of Canadians using in-branch banking services (30 percent in 2002) (see Figure 2.5).

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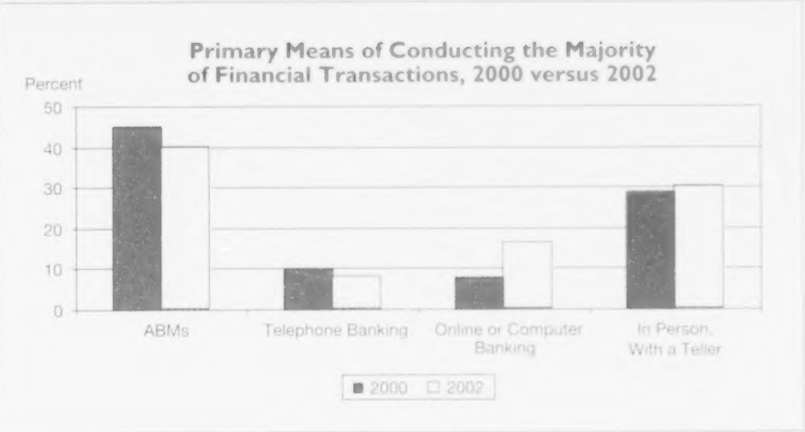
[93] Data source for this and the previous paragraph is the Interac Association, at **www.interac.org/en_n3_31_idpstats.html**

FIGURE 2.5



Source: CBA, Technology and Banking: A Survey of Canadian Attitudes, 2002.

Added convenience, but not without some cost and risk

Convenience has certainly been the main reason for the rapid adoption of debit cards by Canadians. Many people use debit cards for a number of everyday transactions. According to a survey conducted in 2002, 57 percent of respondents agreed that the ability to use debit cards improved banking a great deal. Fifty-two percent said the same about the national network of ABMs, and 48 percent about being able to conduct transactions by telephone or online (CBA 2002). Debit cards, which instantly deduct funds from a consumer's bank account, also offer an alternative to using a credit card, which is, in fact, a short-term loan that incurs significant extra costs when the bill is not paid off by its due date. Furthermore, it is relatively easy for consumers to acquire debit cards, as they are available even with low-cost accounts.[94]

The increasing use of online banking can be partly explained by the additional functions it offers. Besides providing access 24 hours a day, seven days a week:

> Computer banking continues to grow rapidly while telephone banking has stagnated, likely due to the ease with which more complicated transactions can be done via the Internet. Electronic bill payments (via computer, phone or direct withdrawal) have overtaken traditional methods (mail, teller, utility office). It is entirely possible that these traditional methods will no longer be available in the future as more and more people become comfortable with e-banking (Millward Brown Goldfarb 2003, 7-5).

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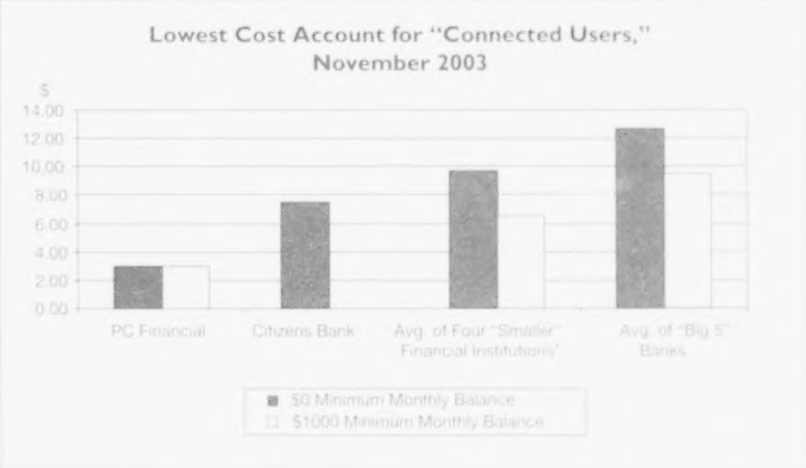
[94] See Department of Finance Canada 2003. Eight financial institutions committed to offer low-cost accounts that meet the guidelines set out by the government to ensure that all Canadians have access to affordable banking services. These guidelines include the use of a debit card as part of a low-cost account.

Consumers must assess the cost of these various options. In a 2001 survey, 71 percent of respondents said that innovations such as ABMs, Interac cards and online banking have increased service charges to consumers when accessing their money to pay for goods and services.[95] Consumer awareness of this trend is also reflected in complaints data: the Financial Consumers Agency of Canada reported an 11-fold increase in complaints about financial service charges in the first quarter of 2003, most of them related to the new "convenience" fees that nearly all banks now charge when a non-client uses their ABM.[96] On the other hand, for "connected" consumers (i.e. those using ABMs and online services), virtual banks have consistently offered the least expensive bank accounts packages (Office of Consumer Affairs 2002)[97] (see Figure 2.6). This trend (relying not only on online banking but virtual banks per se) further underscores the impact the Internet has had on the financial services industry.

FIGURE 2.6



* Four "smaller" financial institutions are: Desjardins, HSBC, Laurentian Bank and National Bank.

Source: Office of Consumer Affairs (data as of November 2003).

Unauthorized debit transactions have become an important consumer protection concern. They may occur in a number of ways: counterfeit ABM machines, stolen cards, the interception of card information (by "shoulder-surfing" tactics, for example) and the misuse of personal identification numbers (PINs) (when a consumer is careless in concealing it, for example). While information about debit card fraud is difficult to obtain, the City of Montréal Police Service reports that this type of fraud increased 25 percent in 2002, accounting for $37 million in losses, compared to $4.5 million in credit card fraud losses (Armstrong 2002, A7).

White labels: convenience at a price

The introduction of private "white-label" ABMs (those installed and operated by non-financial institutions) can be traced to a 1996 Consent Order from the Competition Tribunal. These private operators charge consumers a convenience fee for using the machine, a portion of which "is usually returned to the owner of the premises where the ABM is located (drug store, gas station, etc.)" (FCAC 2002, 4). By November 2003, independent operators managed more than one-third of all ABMs in Canada (FCAC 2002).

The Financial Consumer Agency of Canada (FCAC) reports that the cost of accessing one's money can become quite substantial considering the myriad of potential charges. For example, obtaining $20 can incur fees up to $3.55, which is 17.8 percent of the total withdrawal. A major concern is whether consumers fully appreciate (or have alternatives for avoiding) the current three levels of fees for withdrawing money from an ABM not operated by the consumer's own financial institution. (These three fees are the regular bank account transaction fee, the Interac network access fee and the new "convenience" fee.) According to survey data compiled by the FCAC, the more frequent users of white-label ABMs and other types of ABMs imposing surcharges are younger Canadians with lower levels of education and household income.[98]

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[95] Omnibus commissioned by the Office of Consumer Affairs in 2001 as part of the Environics Research Group's Focus Canada survey.

[96] In the last quarter of 2002, two consumer groups launched a protest concerning ABM convenience fees, asking consumers to boycott these charges and to request intervention by various financial associations and government agencies such as the Financial Consumer Agency of Canada.

[97] See Office of Consumer Affairs (Industry Canada) 2002 for the definition of "connected consumers" and a description of the report's methodology.

[98] FCAC 2003, reporting results from Ipsos-Reid 2003.

New methods of payment, further liability issues

A variety of new payment methods have been developed for the Internet, allowing consumers to easily send (or receive) payments. For example, Paypal (owned by eBay) allows consumers to send money to users with an e-mail address, and Bidpay (owned by Citibank) allows online auction winners to send a U.S.-dollar money order to any seller with a physical address. Other online services facilitate these and other payment transactions (e.g. bank account transfers and electronic cheques). The number of these services is considerable, with a current Web site listing approximately 150 online payment services (Peirce 2003).

These online payment mechanisms give consumers more choices of payment methods than ever before. However, some questions have arisen regarding the liability structures associated with these services. For example, the user agreement for one popular service explicitly states that consumers who accept online payments are subject to a substantial penalty when the buyer makes a credit card charge-back. The online seller could potentially lose the full payment and be charged a large fee after shipping out the product. Each service has its own particular rules and conditions, so consumers need to be thoroughly familiar with them in order to use the services appropriately.

In addition, the liability structure associated with a debit card (for which the PIN is an electronic means of authenticating a user)[99] sometimes puts consumers at risk for the full amount of the unauthorized transaction, which is a higher level of liability than for other methods of payment. Section 48 of the *Bills of Exchange Act* states that, for manually signed cheques, the customer is *not* responsible for unauthorized transfers. Credit card issuers stipulate in credit card agreements that, in the event that a lost or stolen credit card is used in an unauthorized manner, the maximum liability to the borrower is the lower of $50 or the maximum set by the credit card agreement.[100] But similar protections do not exist for users of debit cards.

The *Canadian Code of Practice for Consumer Debit Card Services* states that a consumer can be held liable for the full amount of losses if he or she has contributed to the unauthorized use (for example, by writing his or her PIN on or near the card, such as elsewhere in the wallet, using an easily deduced PIN such as one's birth date, or by failing to notify the financial institution immediately on becoming aware of the loss, theft or misuse). Furthermore, some press reports suggest that even when a consumer is reimbursed by a financial institution (when the customer in no way contributed to the fraudulent transaction, for instance), this process can still take several months.[101] A 2002 evaluation of financial institutions showed that the average rates of adherence to the provisions of the Code by financial institutions were lower for providing information relating to liability for loss than for other Code practices.[102] Insufficient disclosure may contribute to the fact that this evaluation also found that a large number of cardholders are not aware of their potential liability when using their debit card.[103]

Concerns about continued access to local bank branches

A majority of Canadians (61 percent of respondents surveyed in 2002) continue to report having visited a bank branch in the past month to conduct a transaction with a teller or other branch staff (NFO CF 2003). Nearly one third of Canadians continue to bank mainly in person at a branch, and 47 percent of those older than 55 do so (Canadian Banker 2002). Financial institutions encourage the use of electronic transactions rather than bank branch staff, concentrating their human resources on counselling services as opposed to day-to-day transactions.[104] This trend towards electronic transactions may therefore also influence branch closures. During 2002–03, the FCAC reported 302 branch closure notices filed

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[99] Note that due to this means of authentication, the onus is placed on the consumer to prove a fraudulent transaction has occurred. While this is generally easy to do with large-scale scams, it can be quite difficult in isolated incidences.

[100] For example, see Mosaik MasterCard Legal Reference, section L.3, available at **www3.bmo.com/mosaik?ACTION=LEGAL**

[101] See, for example, "At Least 30 Lose Money in Ottawa ABM Scam," *CBC Online News* (October 24, 2003) and "Police Warn Against Bank Card Fraud," *CBC Online News* (December 5, 2002).

[102] For example, the rate of compliance when examining the extent to which the financial institutions specify that cardholders are not liable for losses resulting from circumstances beyond their control was only 33 percent. See Ekos Research Associates 2002.

[103] For example, more than half (57 percent) of respondents erroneously disagreed with the statement that they would not be reimbursed for money taken by someone else using their card if their PIN was based on a number found in another document.

[104] For example, see Breton 2000, A7. [Translation] "By reducing counter service and replacing it with automated services, it allows us to increase the consulting staff," says André Cardinal, communications advisor, Fédération des caisses Desjardins de Montréal."

(required and voluntary), and it received 213 complaints concerning bank closures and 133 requests for public meetings related to the closure of 23 branches (FCAC 2003). Branch closures, combined with the increased fees for access to bank-owned ABMs and the increased use of white-label ABMs in areas deemed unprofitable for bank-owed ABMs, have raised concerns that some consumers may face higher banking costs.[105] Moreover, reliance on new technologies may limit some people's access to banking services:

> Using an ABM or Internet banking may not be an option for other reasons, including those related to the natural processes of aging, such as decreased vision or short-term memory loss, or perhaps a sense of mistrust towards technology and lack of access to training or a computer (NSCA 2001).

Public opinion research appears to confirm that some Canadians are challenged by the technology currently available for banking. CBA reported in 2002 that some 27 percent of Canadians did not understand the electronic services available for banking, including 42 percent of respondents age 55 and older (CBA 2002).

2.5 The Growing Presence and Changing Forms of Advertising

Consumers are exposed to increasing amounts of advertising, and this advertising sometimes takes new forms, aided by technology. Advertising can benefit consumers by providing useful information to help them make marketplace decisions and by promoting competition and greater choice. However, the pervasiveness of advertising — in schools, on the Internet, on bus shelters and billboards, and even in public washrooms and on garbage receptacles — challenges conceptions of public versus private space in communities. Sometimes, such as with product placements in television programs, marketing techniques may be so subtle that it may not even be clear to a consumer that advertising is occurring. On the other hand, the intrusive character of some Internet marketing techniques — unsolicited e-mails and pop-up boxes, for example — have also raised concerns.

Consumers are bombarded with an estimated 4000 promotional or advertising stimuli each day (Léger and Scholz 2002). The Canadian Radio-television and Telecommunications Commission (CRTC) reports that $7.5 billion was spent on advertising in Canada in 2002, or $241 per person (see Figure 2.7). Since 1995, advertising revenues grew by nearly 40 percent (current dollars), while spending per capita (adjusted for population growth) increased by 31 percent. These growth rates exceeded the corresponding inflation rate (14 percent from 1995 to 2002), but paralleled more closely the growth (in current dollars) in Canada's GDP per capita (33 percent).[106]

Research opportunities

Canadians currently enjoy virtually unlimited electronic access to many aspects of their financial affairs, with significant autonomy for consumers. While knowledgeable consumers certainly benefit from the convenience, further research could examine the effect of self-serve access on less technologically sophisticated users. Specifically, research could address whether greater access to online information and complex financial transactions puts consumers at risk by encouraging self-service when they lack the experience or skill required to judge risk and provide for their own security measures.

Similarly, technology and the Internet enable service providers to enter Canadian markets without having to invest in physical bank branches. Further research could assess the financial options available to consumers who do not want to — or cannot — use some of the technological innovations now offered, including access to financial services, variable pricing, quality of service and levels of choice.

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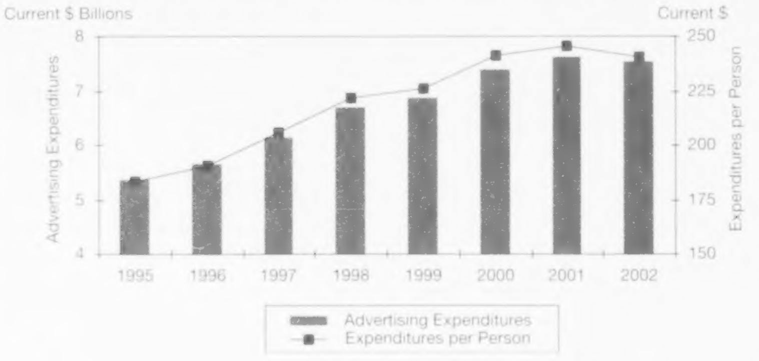
[105] Specifically, if banks deploy [illegible] "white-label" or no-name" ABMs will move into these areas, offering [illegible] consumers [illegible] at [illegible] high prices." Public Interest Advocacy Centre, a letter to the Honourable P. Martin PC, MP, Minister of Finance, October 12, 1999.

[106] GDP data from Statistics Canada (CANSIM series [illegible]).

FIGURE 2.7

Advertising Revenue, Canada, 1995–2002



Source: Carat Expert, as quoted in: CRTC. *Broadcasting Policy Monitoring Report: 2003*. Per capita figures calculated using Statistics Canada, CANSIM, series v466668.

In 2002, print media (newspapers and magazines) accounted for almost half (45 percent) of advertising revenue in Canada (see Figure 2.8). Television accounted for about one third (34 percent). Given that Canadians view an average of 21 hours of television per week (Statistics Canada 2003c), the importance of this medium is apparent. While representing a smaller proportion of total revenue, other forms of advertising have been growing quickly over the last seven years. Billboard and Internet advertising accounted for the smallest share of revenues in 2002, but have both grown at an above average rate since the mid-1990s.

FIGURE 2.8

Advertising Revenue By Media

	1995 ($ Millions)	2002 ($ Millions)	Share of 2002 Total (Percent)	1995–2002 Growth (Percent)
Television[1]	1878	2595	34	38
Daily Newspaper[2]	1323	1682	22	27
Radio	769	1077	14	40
Magazine	621	983	13	58
Weekly Newspaper	615	770	10	25
Billboard	167	321	4	92
Internet[3]	2	116	2	58[3]
Total	**5373**	**7544**		**40**

[1] Includes private conventional, CBC/SRC, specialty services, other public, educational, religious and not-for-profit services.

[2] Excludes classified ads.

[3] 1996 data (the first year Internet data were published); growth rate calculated for 1996–2002.

Source: Carat Expert, as quoted in CRTC. *Broadcasting Policy Monitoring Report: 2003*.

Businesses' promotional activities are increasingly underestimated when only advertising revenue trends for the above-mentioned mass media are considered. The data do not account for the more customized, "relationship marketing" approach which has emerged from:

> … the paradigm shift that the marketing/advertising field has experienced over the last 10 years or so. … Advertisers are increasingly experimenting with new ways of developing relationships with consumers. Traditional media, such as TV, are being downplayed in favour of innovative vehicles, events and ways of creating buzz (Dunne 2004).

For example, HBC, in creating its custom magazine *Living Spree*, has started Canada's first measurable direct-to-consumer publication (Young, 2003). As expressed by the company's vice-president of marketing, "by targeting distribution of the magazine to select households and then monitoring how recipients use the coupons and other inducements to shop, … the retailer can get a clearer idea of which consumers respond to which marketing messages" (Flavelle 2003). Today's information systems and data mining technologies have been a significant factor enabling such personalized marketing trends. As noted in a report on the U.K. advertising sector: "Improved techniques in customer relationships marketing and database management have allowed for better targeting of direct mail and … with consumers being bombarded with increasing numbers of commercial messages, personalization has become more important" (Lee 2003).

For example, an estimated 13 billion pieces of direct mail are delivered in Canada each year — more than 1000 pieces per home (Recycling Council of Ontario, 2000). And while research suggests a response rate of only 0.46 percent for basic mailings, personalizing it by applying database information increases the rate by 500 percent more than the initial 0.46 (Biback 2001). Such sophisticated market segmentation services are now offered by corporations, such as Canada Post. It can create a neighbourhood clustering system, by bringing together a variety of data, from census information to consumer surveys (Canadian Press Newswire 2000).

Companies will seek to further incorporate customer relationship management practices into their marketing campaigns. This will undoubtedly raise additional privacy issues. Consumers who want to receive better service and offers of more direct relevance to them will have to weigh the trade-offs involved, as businesses will require the collection and use of personal information to develop better targeted offers and, in turn, improve their sales and profits.

Canadians are exposed to significant amounts of American advertising

The United States accounts for roughly half of worldwide advertising expenditures[107] and, on a per capita basis, spends far more on advertising than other similar advanced economies (see Figure 2.9). A number of factors (proximity, common language, extensive trade relations) favour the cross-border movement of U.S. mass communications into Canada, including advertising. For instance, U.S. print advertising was imported directly via the 540 U.S. magazine titles that entered Canada in 2001, with a circulation of 8.7 million Canadians, carrying a variety of American ads (Magazines Canada 2003).[108]

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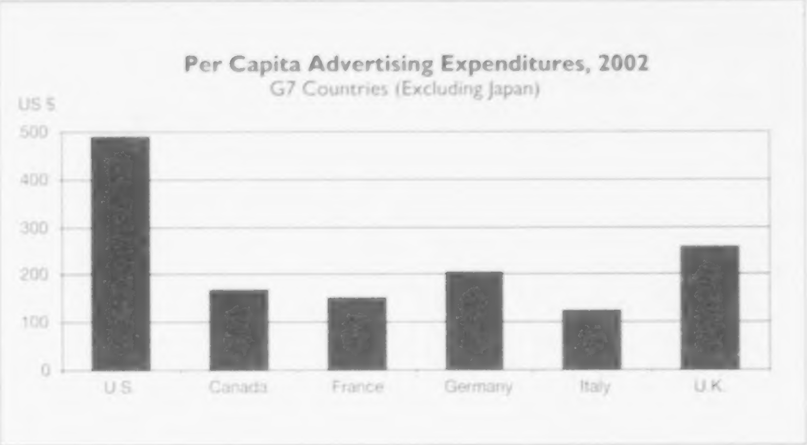
[107] In a December 2003 press release, Zenith Optimedia reported that the U.S. accounted for 45.6 percent of worldwide advertising expenditures (major media) in 2002, which is broadly comparable to Universal McCann's estimate of 52.9 percent for 2001.

FIGURE 2.9



Source: Zenith Optimedia. 2002. Converted to per capita figures using United Nation's population data for 2001.

Access to American television programming also gives Canadians significant exposure to U.S. advertising. While CRTC regulations allow Canadian broadcasters to substitute Canadian ads for American commercials in certain circumstances (and hence generate revenues),[109] there are many instances in which U.S. commercials air in Canada. For one, the signal substitution rule does not apply to foreign television services (such as the growing number of pay and specialty channels[110]) when this programming is not simultaneously broadcasted in Canada. Also, the many Canadians who live near the international border can, with a good antenna, pick up American signals directly (Canadian Communications Foundation 2001). Some Canadians (broad estimates range from 520 000 to 700 000 active systems in Canada)[111] also receive U.S. signals directly by satellite via the "grey/black" market.

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[108] The Canadian magazine industry association, however, also notes that only 16 U.S. titles make the top 100 list for magazine circulation in Canada.

[109] See Section 30 of the Broadcasting Distribution Regulations.

[110] See CRTC 2002. Statistics on Television – Audience – Viewing Share by Station Group show that the audience share (all-day, for all persons aged 2+) of U.S. and non-U.S. pay and specialty services increased from 5.5 percent in 1993 to 13.4 percent in 2001.

[111] For example, see the Canadian Coalition Against Satellite Signal Theft 2003.

In some cases, Canadian exposure to American advertising can be problematic. For example, pharmaceutical products advertised on American television, in U.S. publications and over the Internet may not be available in Canada. Furthermore, direct-to-consumer advertising of prescription drugs is regulated differently in Canada.

Prescription drugs: The potential confusion created by cross-border advertising

Direct-to-consumer advertising of prescription drugs in Canada, relative to the United States, is subjected to a greater number of specific regulatory requirements. Health Canada notes that prescription drug advertising "still reaches Canadians from the United States via print, television and the Internet in increasing volumes" (Health Canada 1999). More recently, the Internet has further broadened the advertising "spill-over effect" because "you can find out everything you want about any drug, even the experimental ones" (Vogt 2001, A18). This situation is confusing for consumers: 57 percent of Canadians recently surveyed thought that, at present, prescription medicines can be advertised directly to the Canadian public (Ipsos-Reid 2003c). Moreover, the "spill-over effect" exposes Canadians to messages about drugs that may not even be approved or available in Canada.

Advertising benefits consumers

Advertising brings a number of consumer benefits, such as lower search costs, since information is conveyed about many more products than is possible for consumers to see when they shop. Many Canadians rely on flyers and newspaper advertisements as well as radio and television ads to alert them to low-price sale items. Advertising may also facilitate consumers' understanding of a product's attributes, although consumers must realize that advertising is not always objective and impartial. Brands, created by marketing efforts, simplify consumer choice in that they suggest to buyers which products are high quality and which are inferior. One advertising industry representative has stated that "brands were the first piece of consumer protection" (*The Economist* 2001). Furthermore, studies on the role of advertising have for quite some time identified its potential to promote competition and greater consumer choice:

> Those who have defended the role of advertising in our economy have argued that it tends to encourage competition in various ways. Advertising is said to reduce the opportunities for firms to earn local monopoly profits by making product information available to a larger number and wider distribution of consumers. Also, advertising enables firms, both young and old, to introduce new products and gain market acceptance for them much more rapidly than would be possible without advertising (Spencer 1967, 77).

Finally, advertising revenues partially or fully pay for a significant proportion of entertainment services. Overall, Canadians appear to recognize some benefits to advertising: while the vast majority of Canadians (88 percent) are certain that they are exposed to more advertising today than they were 10 years ago, only 31 percent find its volume unacceptable (Léger and Scholz 2002, 25). The fact that many people buy and wear articles of clothing that prominently display company logos suggests that many do not find this sort of commercial exposure unacceptable.

The public versus private debate: Advertising in schools

There are many forms of advertising in schools today, including, for example, market-driven teen magazines,[112] corporate-sponsored events, promotional materials and corporate giveaways. A number of teacher associations have spoken out against this trend, concerned that commercialization "privatizes public space" and that schools, as an integral part of the institutions of democracy, should provide an "education that prepares people to participate as critical citizens in that public space" (Kuehn 2003). Financial constraints are often cited as the rationale for schools' interest in commercial agreements. However, even when presented with the argument that advertising may allow schools to receive financial assistance, services or equipment, 7 out of 10 Canadians surveyed in 2000 still felt that advertising has no place in schools.[113] Recently, in response to concerns about obesity in children, some changes with respect to the presence in schools of products that are the subject of significant levels of marketing exposure have occurred: "the Canadian soft drink industry has decided to pull all its carbonated beverages from elementary and junior high schools in the country by the beginning of the next school year … [and] has already begun talking with schools to reword contracts to conform to the new rules" (Lau 2004).

Concerns about rapidly increasing advertising

Proliferating advertising is raising concerns about the definition of public versus private space, however. While outdoor advertising represented less than 5 percent of advertising expenditures in 2002, it was purchased by 90 percent of Canada's top 200 advertisers in 2000, up from 65 percent in 1995 (Powell 2001). As a marketing analyst observed:

> It seems that anything is fair game as a venue for out-of-home advertising: bicycles, garbage cans, taxi hubcaps, urinals, office buildings, the CN tower, mall food courts, golf course holes, parking lot boom gates, subway trains, grocery carts, and even apples and bananas in the produce section (Powell 2001).

The visual dominance of advertising is another concern, for "digital-imaging and output devices have made it possible to produce bigger, cheaper and higher-quality boards than ever before" (Diekmeyer 2001, D2). A recent public space debate resulted in a Supreme Court decision that supported a city's ban on large billboards, a by-law created in part to prevent the intrusive presence of advertising in public spaces (Makin 2003, A17).

While television has been a major advertising medium for some time, a growing trend over the last two decades, especially in the United States, has been the use of "product placements," the presence of a brand name product in core program content. This is also true of some feature films. This marketing strategy has grown "as networks become increasingly nervous about the impact of digital video recorders like TiVo, which allow viewers to skip commercials" (Bauder 2003, D03). Canadians are exposed to product placement advertising, since a significant proportion of our television and cinema programming originates from outside Canada (mainly from the U.S.). Two thirds of television viewing by Canadians in 2001 was of foreign programming (CRTC 2002, 46), and over 98 percent of film distributors' revenues (commercial cinemas and drive-ins) in 2000–01 came from foreign productions (Statistics Canada 2003d). Product placement in music videos in particular is seen as a growing trend that allows marketers to circumvent technologies that allow skipping commercials, and to target the lucrative market of Canadian teenagers. In the words of a music industry media consultant:

> Why pretend? Shoot the video and the TV ad at the same time … Straight ads alone don't cut it anymore. I think hip hop is the fastest growing sort of marketing arena that's out there. It's just the kids see it, they want it, they get it. It's as simple as that (CBC 2004).

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[112] See, for example, Bell 2003, which reports that "ad-driven teen magazines produced for distribution in Canadian secondary schools … began with the Winnipeg magazine *What* 16 years ago and have grown to incorporate *Verve, Fuel* and, most recently, *Fase*, with a combined circulation of more than a million copies."

[113] *Canadians Say No to Advertising in Schools*, results from an Environics survey conducted on behalf of the Canadian Teachers' Federation accessed at **www.ctf-fce.ca/en/press/2000/Attach-52eng.htm**

Advertising directed at younger children also poses particular challenges. Research shows that children between the ages of two and five cannot differentiate between regular television programming and commercials (Media Awareness Network 2003a). Until about age eight, children do not understand that advertisements are not always portraying a reality (Media Awareness Network 2003a).[114] Based on focus-testing among families regarding television ads for toys, the Canadian Toy Testing Council concluded that one of the biggest problems with toy ads is the exaggeration of product claims, so that young children think a toy can actually do a lot more because of the way it is portrayed in advertisements.[115]

Advertisers are increasingly targeting the young

Today's kids are considered to be the most-marketed-to generation in history (Media Awareness Network 2003b). One estimate suggests that American children are exposed to 40 000 television ads per year, up from 20 000 ads in the 1970s.[116] Even preschoolers are being exposed to more marketing (Media Awareness Network 2003a), with research indicating that children as young as age three recognize brand logos (Fischer et al. 1991). The U.S. National Institute on Media and the Family states:

> In the past the most effective way to sell children's products was through mom and dad. Now the opposite is true; children are the focal point for intense advertising pressure seeking to influence billions of dollars of family spending (National Institute on Media and the Family, 2002).

Internet advertising: new forms and new issues

On the Internet, a growing number of prominent listings produced by Web search engines are based on paid advertising. One prominent search engine company disclosed in 2003 that 150 000 advertisers had paid to be included in its paid listings program (Liedtke 2003). Consumer advocates are concerned that concealment of the paid advertising "may mislead search engine users to believe that search results are based on relevancy alone, not marketing ploys" (Commercial Alert 2001). A survey of American Internet users concluded that "users are largely unaware that search engines may not be neutral guides to the on-line world," since fully three in five users "do not know that search engines are often paid to list some sites more prominently than others in their results" (PSRA 2002). A review subsequently conducted by the U.S. Federal Trade Commission (FTC) in 2002 agreed that "while many search engine companies do attempt some disclosure of paid placement, their current disclosures may not be sufficiently clear" (FTC 2002). A more complex form of paying for Internet exposure, known as paid inclusion,[117] has been called problematic by U.S. regulatory agencies.[118]

Internet advertising began with relatively harmless approaches such as banners,[119] first displayed in 1994.[120] As their novelty and effectiveness waned and as technological applications became more sophisticated, Web marketers adopted a greater variety of methods, including placing ads that obscure content for a brief period or use sound to attract attention (Olsen 2002b), and interstitials. Interstitials come in two forms: small windows that pop up as you browse Web pages and entire screens that appear as you move between pages.

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[114] The identification of toddlers as a consumer market has been associated with the marketing of merchandise on the popular pre-school TV programs Barney and Teletubbies. See Media Awareness Network 2003a.

[115] Reported in "Ads Aimed at Kids," *Marketplace*, Canadian Broadcasting Corporation, November 13, 2001.

[116] Robinson, Thomas N. et al. "Effects of Reducing Television Viewing on Children's Requests for Toys: A Randomized Control Trial," *Journal of Developmental and Behavioral Pediatrics* (June 2001), p. 179, as quoted in Assadourian 2003: 18.

[117] Paid inclusion implies that companies accept fees to "crawl" Web sites more often — it can therefore affect results returned to the Internet user if the program's underlying search engines review particular Web sites' content more often or more deeply than otherwise.

[118] "The U.S. regulatory agency said that so far it's pleased with efforts to disclose ads as 'sponsored' when they appear on top or adjacent to query results. But a more complex form of paying for exposure within search results, called paid inclusion, remains worrisome for consumer watchdogs and the FTC." From Olsen 2002a.

[119] A relatively small box with text and graphics, placed at the top or bottom of the screen with a link to the advertiser's home page.

[120] Morgan Stanley Dean Witter Equity Research, *The Analysis of Internet Advertising and Online Advertising*, as quoted from **www.internet-advertising-ia.com/index.html**

Disclosure problems involving adware software

Adware is a software application that, when downloaded onto a computer, can track Web-surfing habits so advertisers can tailor their messages to a user's preferences. When visiting a Web site to rent a car, for example, the program may prompt a pop-up box to open with promotional information about a competing car rental business. Adware is typically acquired by users in exchange for the download of free software, such as file-sharing applications. It has been the subject of many complaints that "reflect growing turmoil in the Internet advertising industry, which increasingly has embraced intrusive, flashy and experimental ad tactics as on-line advertisers try to lure customers" (Walker 2002, E6). While certain consumers may find this exchange beneficial (they obtain free software), a number of adware applications have come to be described as "spyware," in light of poor disclosure practices, which imply that users do not know they have installed such software, and given that some spyware applications are designed to resist removal. Privacy advocates are therefore concerned that "these deceptive applications compromise users' control over their own computers and Internet connections, and over the collection and sharing of their personal information" (Berman 2004).

The economics of spam

The growing amount of spam in circulation is due, in part, to its special characteristics. An e-mail campaign can be brought to market faster (1–3 weeks, versus 6–8 weeks for direct mail), with a quicker response-cycle (24-72 hours, versus 2-6 weeks)[123] than a traditional campaign. The most important factor, however, is its very low cost for the sender where, as noted by the Canadian Marketing Association:

> ... there are some instances where the consumer will bear a cost because of the choice of media employed by a marketer. ... unlike more established media where the marketer pays virtually 100% of the cost of communication, the cost of e-mail marketing is largely borne by the consumer in the form of charges for connect time (CMA, 2001).

The cost per e-mail sent can amount to little more than a fraction of a penny (compared to direct mail's postage fees), hence providing a powerful incentive. Spammers in fact appear to be able to work even with a consumer response rate of only one hundredth of 1 percent, versus direct mail's general average of 2–3 percent (Kapica 2003).

As the marketing potential of online technologies has been explored, a number of less reputable forms of advertising have been used, with consequences for the Internet user that can go beyond annoyance. These include "mousetrapping"[121] and covertly downloading advertising material onto a user's hard drive without informing him or her or requesting permission to do so (Olsen 2002b). In other cases, confused consumers may think that pop-up downloads are necessary plug-ins required to view desired material. But the impact of pop-up downloads can be troublesome. Some have redirected consumers to adult-oriented Web sites or installed new dial-up programs that replace existing accounts with expensive 1-900 numbers (Olsen 2002b).

Another important issue with online marketing is the growing volume of unsolicited e-mail (known as spam), which has skyrocketed in recent years and now accounts for an estimated 30 percent or more of Internet traffic, up from 10 percent just two years ago (Industry Canada 2003). It is feared that the flow of unsolicited e-mail "may lead to significant disruptions and inefficiencies in Internet services."[122] According to the Canadian Marketing Association, "For reputable marketers, [unsolicited e-mail] has the potential to destroy consumer trust in the Internet" (CMA 2003).

Consumers, at the same time, face a number of costs associated with spam, such as the amount of time that can be lost scanning through e-mail to identify wanted versus unwanted messages (a process aided, but not always perfected, by spam filters). Furthermore, the enormous volume of spam raises consumer fraud risks; the FTC reports that a majority of spam messages contain false information (FTC 2003a).

Telemarketing is another widely used means of marketing, and it too has benefited from technology and changes in telecommunication service markets (e.g. lower long distance charges). Certain uses of the new telemarketing tools, such as predictive dialers, have raised concerns as some consumers experience inconveniences like silence or "dead air" when they answer their phones — which can be especially frightening for seniors (Gustavson 2001, 16). A recent legislative "do not-call" initiative launched in the U.S. aims "to give consumers an effective choice about stopping unwanted and intrusive telemarketing calls" (FTC 2003b). In Canada, the Canadian Marketing Association has a national do-not-call program that applies to its members, but consumer complaints are said to have continued because "many telemarketers who are not CMA members have consistently refused to restrain their activities to a degree that consumers find tolerable" (Gustavson 2002). A 2001 survey revealed that 61 percent of Canadians chose the statement, "I would like to stop receiving all telemarketing calls to my household, even if it means I may miss out on a really good opportunity," while only 38 percent chose "I don't mind receiving telemarketing calls because I can always say no or not answer the phone" (PIAC 2001). In March 2001, the CRTC began a review of the current rules that apply to telemarketers and invited the public to give their views on a number of issues. The Commission's recent decision has strengthened existing telemarketing rules "by reinforcing the rules governing company specific do not call lists, by imposing additional identification procedures, and by imposing rules governing predictive dialing services" (CRTC 2004a).[124]

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[121] The launch of multiple windows when a user tries to exit a Web site.

[122] Prepared Statement of the FTC on Unsolicited Commercial eMail Before the Committee on Commerce, Science and Transportation, U.S. Senate (May 21, 2003).

[123] The source, as quoted in the Canadian Marketing Association's "The CMA Guide to E-mail Marketing" at **www.the-cma.org/council/guidelines.cfm**, is Forrester Research, Jupiter Communications, DMA.

Telemarketing aimed at vulnerable persons can also be used for fraudulent purposes. Between August 2002 and February 2003, the Canadian Competition Bureau received more than 500 complaints about telemarketing fraud from other law enforcement and government agencies, including the Phonebusters National Call Centre and the U.S. FTC, and various Better Business Bureaus and attorneys general offices in the U.S. (Competition Bureau 2003). The Deputy Commissioner at the Competition Bureau has stated that:

> Cooperation among law enforcement agencies both domestically and internationally means that deceptive telemarketers will be vigorously pursued no matter where they locate. This concerted effort of law enforcement agencies working in partnership has resulted in over 900 criminal charges against individual telemarketers and their companies in the past three years as a result of investigations led by the Bureau (Competition Bureau 2003).

Research opportunities

Since technological developments favour the new advertising methods or the expansion of existing ones, ongoing analysis of its effects is required. For example, more needs to be understood about how advertising influences children, a generation growing up with unprecedented exposure to commercial messages. Furthermore, with the Internet continuously changing how marketers communicate with customers, a definition of acceptable practices is still unfinished business. Other technological developments, such as the personal video recorder, which can automatically delete commercials as it records programs, are modifying the "paid for by advertising" model applied to content programming — and the impacts of yet-to-be developed economic models for creating entertainment content may be significant, perhaps including increased costs for consumers. As such, advertising's changing role in the provision of entertainment services (a growing household expenditure) will also provide for useful studies in the future.

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[124] On September 28, 2004, the CRTC approved a request by the Canadian Marketing Association (CMA) to stay the Review of telemarketing rules (Telecom Decision CRTC 2004-35), pending the disposition of the CMA's application to review and vary this Decision (see CRTC 2004b).

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Part 2

Understanding Today's Consumer

CHAPTER

Consumer Demographics

Summary

3.1 The Changing Age Structure of Canada's Consumers

The aging of the baby boom generation is the most influential factor shaping Canada's demographic profile. With a growing senior population, a number of families are facing issues associated with caring for older family members. In addition, seniors themselves are particularly attractive targets of questionable and sometimes outright fraudulent business activities. Youth cohorts — while relatively smaller in numbers — continue to have an important influence on, and interactions with, the marketplace. **Research opportunities** include the need to better understand the issues and challenges of aging for consumers' dealings with the marketplace. For example, targeted product/service offerings, the provision of information in advertisements and contracts, and access to redress all merit further analysis from the perspective of older consumers. With respect to younger consumers, numerous avenues for research exist, such as whether their teenage experience with largely discretionary purchases will affect their decisions when they start to purchase essentials as adults.

3.2 Canada's Changing Households

Canada's households are no longer well typified by the "dad, stay-at-home mom and kids" scenario: today, families are smaller, and a majority of them include no children. Increasing numbers of Canadians are actually living alone, and for seniors in particular, this household arrangement can suffer from inadequate resources. As for those Canadian families that do have children, family formation is on average occurring later in life, at a time of greater financial stability, and family resources support a smaller number of children. A significant number of children, however, live in lone-parent homes. The latter's consumer challenges can be particularly difficult, shaped as they are by financial constraints (discussed in Chapter 5) and time pressures. The increasing number of two working-parent families face the same difficulties. **Research opportunities** include the need to integrate household structure and time management issues when developing materials for self-learning or self-protection, or when analyzing policy options that alter the consumer's share in the allocation of marketplace risks and responsibilities. Special attention should be given to understanding how time constraints affect consumer decision making, especially in complex markets where the costs of a wrong decision are high.

3.3 The Changing Ethnic Composition of Canadian Consumers

Immigrants and visible minorities are ever more present in Canada's population. Cultural differences influence demand and hence contribute to a more diversified marketplace, to the benefit of all Canadian consumers. However, a number of these Canadians — and even second-generation immigrants in the case of visible minorities — report discrimination in the conduct of their consumer activities. **Research opportunities** include analysis of, and responses to, discriminatory market practices suffered by visible minorities, whether related to earning or spending. There may also be a need to examine issues of particular relevance to Aboriginal consumers, both with respect to choice and redress in rural and remote areas as with potential discriminatory practices in urban areas. More generally, it will be important for the analysis of existing consumer protection measures to better account for differences in the needs, behaviours and expectations of Canada's various communities with regard to the marketplace.

3.4 Where We Live: The Geographic Distribution of Canadian Consumers

Canada's population is increasingly concentrated in and around urban centres — the majority of Canadians live in the country's 27 Census Metropolitan Areas. For the remaining — and on average older — population located in rural and small town Canada, accessing goods and services can be very different from the urban experience. Assessing average retail trends across Canada may not capture important urban–rural differences. A bank branch or department store closure, for example, takes on a particular meaning for Canadians in a smaller town. **Research opportunities** include the need to consider how marketplace trends (such as changing retail formats and concentration, and the electronic delivery of goods and services) impact on consumers outside of urban centres. Government and consumer protection advocates should also pay special attention to Canada's geographic realities in the development of information and awareness materials.

Chapter Three
Consumer Demographics

The wants and needs of consumers are directly related to their socio-demographic characteristics. This chapter identifies some basic demographic trends, first reviewing the age and household structure of the population (as consumers' needs change over the course of their lifetime) and then the increasingly diversified ethnic composition of the Canadian population. Finally, the geographic distribution of Canada's population is examined, as consumers in rural areas face strikingly different conditions in their access to goods and services from those of their counterparts in urban areas. The above demographic issues will also be referred to in our analysis of Canadians' socio-economic circumstances in the subsequent chapters on education, income, assets, debt, wealth and spending. This approach underscores the limited usefulness of considering trends for the "average consumer."

3.1 The Changing Age Structure of Canada's Consumers

Age is unquestionably an important factor in consumer identity, since consumption patterns and financial situation change significantly throughout an individual's lifetime. Broadly speaking, three groups have traditionally described the population's age structure: children (0–14 years of age), working-age adults (15–64) and seniors (age 65 and older). In addition, given that today's youth spend a much longer time than previous generations in formal education, the 15–24 age category is sometimes separated and identified as the youth population.[125] University of Toronto economics professor David Foot has developed a more descriptive breakdown of the population's age structure (see Figure 3.1) (Foot 1996). His analysis coined new names for the various age cohorts now commonly used in the media and academic literature. Because much of Foot's work is devoted to analyzing the implications of demographics for a population's future demands on the economy, his typology of age groups is frequently used in this and following chapters.

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[125] Survey results indicate that completing one's education is the most valuable step toward adulthood, with 73 percent finding it extremely important. See NORC 2003.

A marketplace responding to an aging population

For a number of the challenges associated with aging, consumers can find a helpful ally in the many manufacturers and product designers who are catering to "niche markets" (gearing their products specifically to address age-related needs) and enhancing their traditional products targeted to seniors and older boomers.

Examples of the former abound: growing numbers of assisted-living and full-care residences, home care, home medical supplies, home renovations to promote independence (ramps, lifts, etc.), and wheelchairs and scooters.

Examples of "enhanced" consumer products include hi-rise washers and dryers, which are raised on a pedestal to reduce back strain, large-button telephones and cordless can openers relying on a body grip rather than a hand grip. Services, too, are tailored to seniors. Some insurance companies in the U.S. will reduce seniors' car insurance rates if they complete AARP's "55 Alive" Mature Driving program, or if seniors restrict their driving to daylight hours only (Sharp 2003). The travel industry is also targeting its offerings to wealthier and healthier seniors. For example, "Hotels, ski resorts, airlines and other tourism-related operations scramble to offer seniors discounts and special facilities" (Buhasz 2003).

FIGURE 3.1

Common Terminology for Age Cohorts

	Year of Birth	Age in 2001	Proportion* of Total Population in 2001 (Percent)	1981–2001 Growth of Corresponding Age Segment (Percent)
Seniors	1936 and before	65 and older	13	65
Pre-boom	1937–46	55–64	9	34
Baby Boomers	1947–66	35–54	32	-76
Baby Bust	1967–79	22–34	18	-4
Echo (Gen Y)	1980–95	6–21	22	-1
Kids	1996–	5 and under	7	-1

* Proportions are affected by the number of birth years within each cohort (for example, 13 years for baby busters between 1967 and 1979, and 20 years for baby boomers between 1947 and 1966).

Source: Terminology based on David Foot (1996); calculations based on Statistics Canada, CANSIM, table 051-0001.

Change in the *relative proportions* of age groups in Canada is expected to have an important impact on retailing (Industry Canada and Retail Council of Canada 1998, 6). The aging of baby boomers, that is, their transformation into the new senior group, is the greatest determinant of Canada's current and future age structure. Indeed, the senior population has already grown significantly, as Canadians' life expectancy has improved. At the same time, however, the shrinking youth group represents an interesting consumer subset.

Canada's aging population

The aging of the baby-boom generation is the most influential demographic force shaping Canada's marketplace, with nearly one third of the population between the ages of 35 and 54 in 2001. The median age[126] in Canada increased from 29.6 in 1981 to 37.6 in 2001 (Statistics Canada 2002a). The age composition of the population no longer reflects a traditional pyramid, but is becoming a predominantly pear-shaped middle-aged structure (see Figure 3.2). It will change even more in the future, since seniors (swelled in number by the baby boomers) are expected to account for one in five (21 percent) of Canadians in 2026 (Statistics Canada 2001a). Beyond the baby boom factor, however, today's population is already proportionately older than in the past because of a significant rise in life expectancy during the 20th century.[127] As a result, more Canadians are living longer: 7.3 percent of deaths in Canada in 1981 were among people older than age 90, compared to 11.8 percent in 1999 (Statistics Canada 2001b). Overall, the proportion of the Canadian population aged 65 and older reached 13 percent according to the 2001 Census data, an increase from 11.6 percent in 1991 (and 9.7 percent in 1981).

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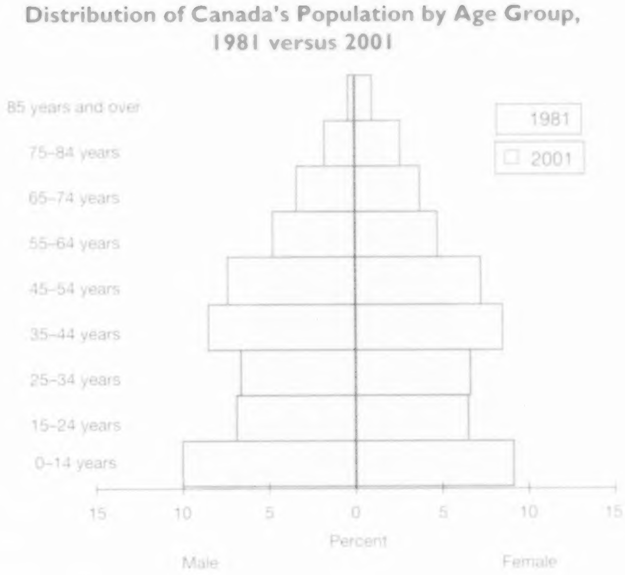
[126] Median age is the point at which exactly one half of the population is older and the other half is younger.

[127] Over the past 20 years alone, life expectancy at birth increased 5.4 years (7.6 percent) to 76.7 for men (as of 2000) and 3.2 years (4.1 percent) to 82.0 for women. See Statistics Canada 2003a.

FIGURE 3.2



Source: Office of Consumer Affairs calculations based on Statistics Canada 97F003XCB01002.

When the fertility rate and other vital statistics are factored into an extrapolation of the age distribution of Canada's population over the next 10 years, it is clear that consumers who are past childbearing age will represent an increasing proportion of consumers. While Canadians aged 45 and older represented 31 percent of the total population in 1991, their proportion increased to 37 percent in 2001, and is projected to grow further to 43 percent by 2011.[128] The cumulative responsibilities of these Canadians raise time management issues for some of them. With higher life expectancy and low fertility rates, *Canadian adults have more parents than children for the first time in history* (Statistics Canada 2003b).

Implications of growing retirement

Along with the aging population, the structure of the Canadian labour market is also expected to change significantly, which raises a number of issues for Canadians. Compared to the latter end of the baby boom (commonly referred to as Generation X), baby busters will likely be subject to less competition from baby boomers and should have good job prospects, since the retirement wave is likely to be particularly acute in some sectors. Rough estimates indicate, for example, that about half the education work force is likely to retire within 12 years (Mackenzie and Dryburgh 2003).

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[128] Office of Consumer Affairs calculations based on Statistics Canada's medium-growth population projections, available at **www.statcan.ca/english/Pgdb/demo23b.htm**

Consumers living with a disability

In 2001, 12.4 percent of Canadians (living in households) of all ages reported having activity limitations.[129] The reported disability rate gradually increases with age, reaching more than 40 percent for persons aged 65 and older. With respect to physical mobility in particular, the Government of Canada's report *Advancing the Inclusion of Persons with Disabilities* notes:

> Transportation is a key requirement to participate in the life of the community and to access important goods and services. Transportation issues range from being housebound due to lack of accessible transportation, to needing unavailable specialized transportation, to extra costs arising from regular use of taxis because of inadequate public transportation (HRDC 2002, 40).

These access challenges will need to be considered in the future. Of the 10 disability types surveyed, disabilities related to mobility[130] were the most often reported by adult Canadians in 2001 (10.5 percent of those aged 15 and older), and were most prevalent in the senior population (31.5 percent of Canadians aged 65 and older). Decreasing family size is likely to diminish the range of options available to the growing number of aging Canadians with disabilities as help from family members may not be available.

What do these mobility challenges mean in the marketplace? Indirectly, consumers with mobility limitations may, overall, have fewer opportunities to get out and make independent consumer decisions. Furthermore, their helpers may also be constrained in making decisions for them, since these helpers may not have the time or knowledge to do so during their own daily shopping routines.

The impact of this is already being felt: in 2001, 18 percent of Canadians aged 15 and older provided some unpaid care or assistance to seniors, compared to 16 percent reported in the 1996 survey (Statistics Canada 2002b). As a result, over this five-year period, the number of Canadians aged 15 and older who provided such unpaid care or assistance increased by more than 600 000. The 45–54 age group in particular have significant obligations, with 25 percent reporting unpaid care and assistance to seniors (Statistics Canada 2002c). Beyond giving personal care, this assistance also includes spending time helping elderly relatives and neighbours with their shopping, banking and other necessary services.

Sadly, a number of socio-economic characteristics combine to make seniors more vulnerable to, and key targets of, marketplace fraud. For one, more and more seniors live alone, particularly older women: in 2001, 43 percent of women aged 75 to 84 and 39 percent of women aged 85 and older lived alone, compared to 39 percent and 25 percent, respectively, in 1981 (Statistics Canada 2002e). Spending long stretches of time alone[131] may predispose seniors to engaging in overly trusting relationships with dubious outsiders, such as unscrupulous telemarketers. Seniors are also at greater risk of having cognitive problems[132] and may be less able to detect misleading marketing ploys. Furthermore, today's seniors are financially better off than seniors in the 1980s. Unfortunately, fraudulent telemarketers have been capitalizing on the vulnerabilities of seniors. For example, according to PhoneBusters, while the number of telemarketing prize and lottery fraud victims reported to the organization fell by 97 percent between 1995 and 2003 (a sign of the general effectiveness of awareness campaigns), victims 60 years of age and older have consistently accounted for a significant share of the total losses.[133]

Young people continue to be very influential consumers

While the size of the 6–21 age group will decline over the next decade,[134] this group is the subject of much attention today, since it currently comprises the "echo generation" — children of baby boomers. The level of marketplace interest in these children, however, is perhaps even more strongly related to their financial influence. Part of the financial power of members of the echo generation comes from what they buy with their own income (from work, allowances, presents, etc.), which is almost entirely disposable income, since parents provide the essentials. According to

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[129] Disability statistics in this text box are from Statistics Canada 2002f.

[130] Defined in the survey as difficulty walking half a kilometre or up and down a flight of stairs, about 12 steps without resting, moving from one room to another, carrying a 5 kg object for 10 m or standing for long periods.

[131] Statistics Canada 2002j presents data from the 1998 General Social Survey and reports that (excluding personal care activities such as sleep and personal hygiene) widowed seniors were spending an average of 10.3 hours alone daily, compared to an average of 5.9 hours across all the population aged 15 and older.

[132] From a 1995 survey reported in Statistics Canada 1998c. A third of seniors reported having cognitive problems (i.e. being either somewhat or very forgetful or having difficulty thinking).

[133] For 1996 to 2003, victims older than 60 lost 84 percent of the total reported losses (not including the value of losses for "unknown age"). PhoneBusters, Statistics on Phone Fraud, available at **www.phonebusters.com/english/statistics.html**

[134] Using the 5–19 age group as an estimate (given the available data), this segment of the population is projected to decline by 7 percent between 2001 and 2011. Calculations based on Statistics Canada 2001a.

YTV's *Tween Report*, Canada's 2.5 million "tweens" (8 to 14 years of age) spent some $1.7 billion of their own discretionary income (YTV 2002). But they also increasingly influence family purchases (up to roughly $20 billion; see YTV 2002), some of which are delegated to them partly because of changing households (such as dual-income parents who are time-stressed).

The post baby boom group, a small group relative to the baby boomers, will also be interesting to watch from a general marketplace perspective, since a majority of its members have moved into prime working-age years. They are increasingly active consumers, facing a number of the most significant decisions that individuals make in their lives, such as buying their first house and first car, and all of the expenditures that come with having children.

3.2 Canada's Changing Households

Given the relationship between household structure, size and purchasing patterns, it is important to review the significant changes that have occurred in this area over the past two decades. Generally speaking, Canadian households are becoming smaller, with fewer children and with time-stressed parents. Between 1981 and 2001, the number of households grew significantly faster than did the overall population (40 percent versus 23 percent, respectively);[135] this is due to the shift towards a greater number of smaller households. Average household size fell from 2.9 people in 1981 to 2.6 in 2001 (Statistics Canada 2002e). Part of the explanation for decreasing household size is the increasing proportion of households today that consist of individuals living alone (including widowed seniors), young childless couples, "empty nesters," and divorced individuals, the latter group a result of the increasing instability of conjugal unions today.[136] Canadian women who have children have, on average, smaller families later in life. The instability of conjugal unions has also resulted in a trend towards lone-parent families, which, in turn, contributes to the decreasing household sizes. Finally, this section also considers another noteworthy change in the characteristics of Canadian households: the growing number of two-earner families with children.

Research opportunities

Canada's aging population brings with it significant societal changes. Just as governments are considering its impact on various policies and programs, so too will consumer researchers need to better understand the issues and challenges of aging for Canadians in their interactions with the marketplace. Targeted product and service development, the provision of information in advertisements and contracts, and access to redress all merit deeper analysis from the perspective of older consumers.

In addition to the aging trend, no sector will be left unaffected by the successive waves of boom and bust consumers. Are younger consumers more savvy consumers? Will their teenage experience with luxury goods affect their decisions when they start to purchase essentials? Will their information needs be different from the needs of the baby-boomer consumers?

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[135] Calculations based on Statistics Canada, "Type of dwelling and population by type of dwelling," available at **www.statcan.ca/english/Pgdb/famil66.htm**

[136] Women ranging from 30 to 39 years of age in 2001 are expected to be twice as likely to see their first union end in separation or divorce, compared to women aged 60 to 69 in 2001 (i.e. who were 30 to 39 years of age in 1971). See Statistics Canada 2002g.

Key household concepts

The data presented here are mostly from Statistics Canada's Census of Canada series, and only consider private households, excluding residents of collective dwellings of commercial, institutional or communal nature (such as a nursing home, military base or prison). Private households are broken down into family and non-family households.

A one-family household contains a census family.[137] The census family, in turn, includes:

- a married couple (with or without children);
- a couple living common-law (with or without children); or
- a lone parent living with one or more children.

If a household contains more than one census family, it is categorized as a multiple-family household, but is not broken down by specific type of census family.

A non-family household is one that includes no census family, such as:

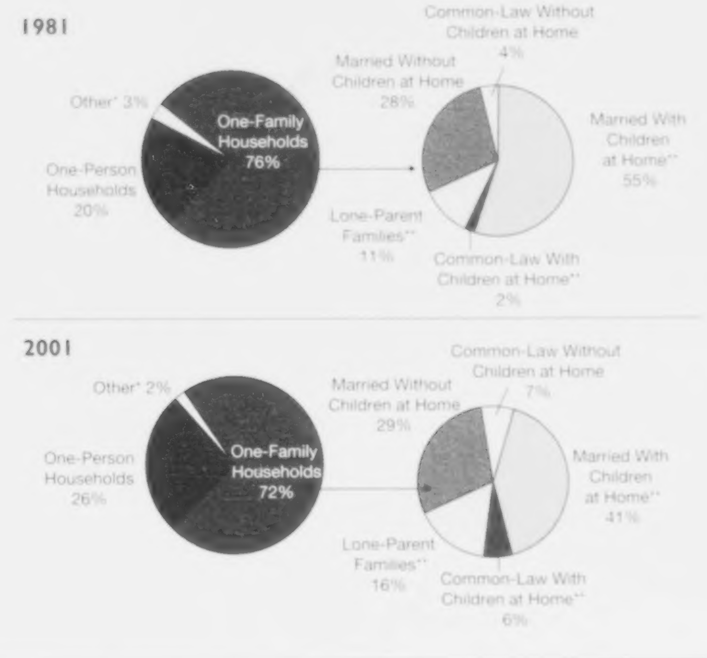
- one person living alone; or
- a household composed of a group of two or more people who do not constitute a census family. One example would be students sharing an apartment.

This report aggregates multiple-family households and non-family households of more than one person into an "other" household category. Given the difficulty of analyzing these broad categories, these other households (which accounted for only 2 percent of all private households in 2001) are not reviewed in this chapter.

Source: Statistics Canada 2001 Census Dictionary, Cat. No. 92-378.

FIGURE 3.3

Distribution of Canadian Households, 1981 versus 2001



*"Other" includes multiple-family households and non-family households of more than one person.

**"Children at home" includes children of any age.

Source: Office of Consumer Affairs calculations based on Statistics Canada 2001 Census data in *Topic-Based Tabulations, Families and Household Living Arrangements* 97F005XCB01001, and Analysis Series, *Profile of Canadian Families and Households: Diversification Continues*, 96F0030XIE2001003.

Living alone can be challenging for consumers

One-person households are growing faster than one-family households in Canada. The proportion of households comprising people living alone grew from about one fifth of all households in 1981 to about one quarter in 2001 (Statistics Canada 2002e) (see Figure 3.3). The likelihood of living alone is highest for seniors, especially among the most elderly seniors. In 2001, seniors made up 13 percent of the population, but they accounted for more than one third of people living alone (Statistics Canada 2002h). The increasing instability of conjugal unions is another likely contributing factor, since that same year nearly half of all people living alone were between the ages of 35 and 64 (Statistics Canada 2002h).

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[137] Note that changes to the concept of a census family in 2001 have some effect on historical comparisons. For example with the 2001 census, two persons living in a same-sex common-law relationship (along with any of their children residing in the household) are considered a census family, in line with some recent legislative changes. Previously, the household type associated with this situation would have been "non-family." Other changes have also somewhat affected the definition of child in a census family. For more details, see "Changes to Family Concepts for the 2001 Census," Statistics Canada Cat. No. 92-381, Appendix A1.

The growing proportion of one-person households implies that more and more Canadians face specific consumer challenges. Not only do individuals living alone manage with only one income, they also bear "costs" in terms of lost economies of scale for many expenditures, such as housing, groceries and telephone charges. Living alone can even affect where people shop. For example, bulk purchases do not have great appeal for people living alone, so they are less likely to be able to save by buying in bulk.

The challenges of living alone can be particularly acute for seniors. It has been observed that over the last 30 years in industrialized countries, "disability-free life expectancy has stagnated, if not worsened, while life expectancy improved greatly" (Légaré 2001, 115). While the tendency of seniors to live alone can be interpreted as a growing level of independence, it is still likely that it requires — for them and their families — a number of housing and other adjustments. Living alone in old age could become even more challenging in the future, because falling fertility rates mean that the elderly will be more likely to have a smaller support network of siblings and children upon whom to rely for care, transportation and help with consumer and financial decisions.

Households without children are the majority

A majority (52 percent) of Canadian households today include no children,[138] compared to 45 percent of households in 1981. And while the number of families with children is still growing in absolute terms, these families are having fewer children and are having them later in life. The proportion of families with three or more children has fallen over the past two decades, while the relative proportion with just one child at home has increased.[139] Related to the overall decline in the fertility rate is the fact that Canadian women who have children do so at a later age: women aged 30 to 34 now have a higher birth rate than do women aged 20 to 24.[140] The increasing age at which women have their first child reflects the tendency of women today to first complete their education and/or establish themselves in the work force before raising a family. A Statistics Canada report concludes that from 1981 to 1997, "delayed childbearing and smaller family size have a positive impact on the economic well-being of children" (Kerr and Bélanger 2001).[141] As a result, a number of children today are growing up in better financial situations and probably consuming more goods and services than did previous generations. As noted in Chapter 2, this opportunity for businesses has not gone unnoticed.

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[138] Only one-person households and couple households without children were included in the calculations, although a share of "other" households may be without children.

[139] See Statistics Canada 2002b. In 2001, 43 percent of families with children at home had just one child, up from 37 percent in 1981. Over the same period, the proportion of families that had two children at home remained virtually unchanged (39 percent, up from 38), while the proportion with three or more dropped from 25 to 18 percent.

[140] A comparison of age-specific fertility rates (i.e. the number of live births in each age group divided by the total female population in each age group) between 1986 and 2002 reveals decreasing rates for all age groups younger than 30 years old, but increasing rates for all age groups of women 30 and older. See Statistics Canada 2002c.

[141] The report notes, however, that overall these positive changes were not as important as the harmful impacts of the increasing trend to lone parenthood.

Lone-parent families increasing

Reflecting the greater instability of conjugal relationships today, lone-parent families — a majority (81 percent in 2001) headed by women — have increased as a proportion of total families, from 11 percent in 1981 to about 16 percent in 2001.[142] Lone-parent families have an average of 1.5 children at home, compared to 1.7 for common-law couples with children at home and 1.9 for married couples with children at home (Statistics Canada 2002j). Given the overall growing number of this family type, however, the proportion of all Canadian children aged 14 and younger living in lone-parent families has increased to about 19 percent of children in 2001, compared to 13 percent in 1981 (Statistics Canada 2003c).

A number of factors challenge lone-parent families in Canada. While many of these families are headed by economically vulnerable women, even economically stable lone-parent families face time constraints, and the limitations and stress that those constraints imply.

In 1998, female lone parents who were employed full time spent an average of 10.7 hours per day in paid and unpaid work (household child care, social support, civic and voluntary activities), exceeding the number of hours worked by full-time employed married parents (see Figure 3.4). Counted in unpaid household work are all the consumer activities that lone parents must handle by themselves. According to Statistics Canada's General Social Survey, the percentage of female lone parents aged 15 to 64 with children 18 years of age and younger that reported severe stress jumped from one in four in 1992 to nearly one in three (32 percent) in 1998 (Vanier Institute of the Family 2002).

FIGURE 3.4

Average* Time (Hours per Day) Spent on Paid and Unpaid Work, by the Population Aged 25 to 44 Employed Full Time, Canada, 1998

Age Group 25–44: Employed Full Time	Unpaid Work	Paid Work	Total
Female Lone Parent	4.4	6.3	10.7
Married Female Parent	4.9	5.5	10.5
Married Male Parent	3.3	6.9	10.3
Married Female Non-Parent	3.2	6.2	9.6
Unmarried Female Non-Parent	2.7	5.8	8.7

*Daily average over a seven-day week.

Source: Statistics Canada Catalogue 12F0080XIE, Table 3.

Why time constraints matter to consumers

Time is one of the main resources people dispose of when shopping and consuming — money is the other. If time is becoming an increasingly scarce resource for some consumers, a time-money trade-off can sometimes be achieved, for example, by using a mortgage broker's services to gather information about and compare options. Purchased consumer advice can help decipher an ever more complex marketplace. However, for those who must cope with both financial and time constraints, there is often no option but to make rushed purchases that may be either unsuitable or too expensive, as when a lone parent must rely on a relatively expensive neighbourhood convenience store for products, rather than take the time to pursue less expensive options located further away. In addition to consumer purchasing decisions, time (like money) is an important factor to consider when deciding how to obtain redress when a consumer transaction goes wrong. Time constraints can be a significant obstacle to the use of legislative tools to provide consumer protection, where "from a consumer standpoint, ... the expense, time commitments and complexity of court processes tend to make judicial recourse impractical for small transactions" (Industry Canada 2002, 31).

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[142] With changes to the definition of "child" in the concept of census family in 2001, the most significant result was a 10.1-percent increase in the absolute number of lone-parent families. Even if using the pre-2001 census-family concept, however, lone-parents' relative size still increased to 15 percent of total one-family households. See Statistics Canada 2001 Census topic-based tabulation 97F0005XCB01006.

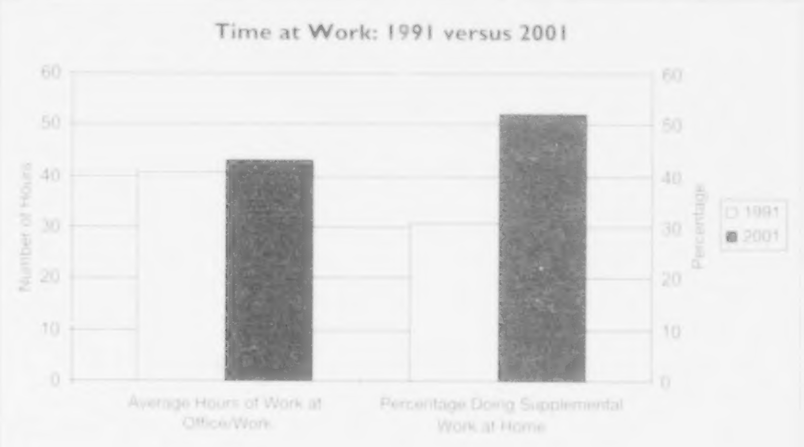
Two-earner households also face time constraints

A majority of two-parent families with children today have two income earners. The younger generation's approach to family formation is indeed strikingly different, as 72 percent of couples that had their first child in 1996 were dual-earners, compared to just 44 percent in 1971 (Lochhead 2000). In more than 70 percent of dual-earner families, both parents work full time (HRDC 2003). As a consequence, "the majority of Canadians under age 35 would view a 'traditional' mom as one who works for pay while raising a family" (HRDC 2001, 15).

Such sharing of financial responsibility has a positive effect on employment and income, but brings with it time constraints for non-work activities, such as child care, shopping, time with family and leisure. Overall, an increasing number of Canadians report severe time-stress.[143] Working Canadians in particular report greater time demands from work itself, including an increasing number of supplemental work hours put in at home (see Figure 3.5). Thus, the issue of quality of life versus work is becoming an increasingly popular research topic. According to Canadians' comments reported in one recent study:

> The amount of work ... has increased dramatically in the last decade, mainly due to the increased use of technology. With today's technology we can have someone in our office, an incoming phone call, voice mails and e-mails — all of which are supposed to be responded to at once (HRDC 2003, 9).

FIGURE 3.5



Source: "Work-life balance in the new millennium: Where are we? Where do we need to go?" (Canadian Policy Research Networks Discussion Paper W-12, October 2001.)

Research opportunities

The "traditional" family in which Dad works and Mom stays at home and looks after the children is no longer the typical Canadian household. A better understanding of Canadian consumers will therefore require more attention to 21st century household realities such as people living alone, lone parents and two-parent dual-earner families. One important trend, for example, is Canadians' use of time as a resource, in terms of both requirements and constraints. Consumer research will need to integrate household structure and time issues, for instance, when developing information materials for self-learning or when analyzing policy options that alter the consumer's share in the allocation of marketplace roles and responsibilities. Special attention may need to be given to situations in which time constraints make some consumers vulnerable when making decisions, especially in complex markets where the costs of a wrong decision are high. This is especially so for those who cannot afford to purchase consumer protection such as advisory services.

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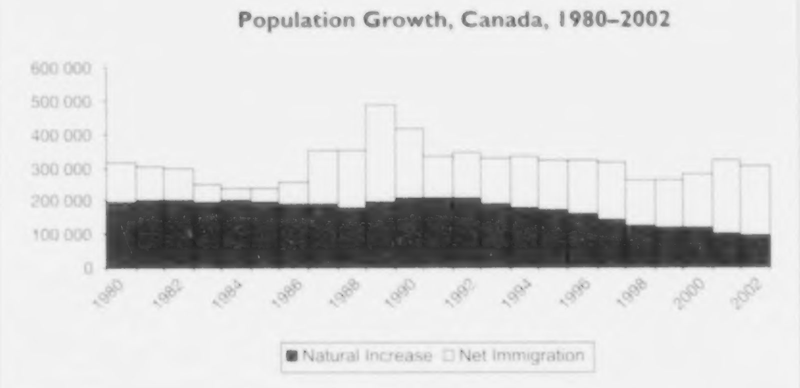
[143] The proportions have increased from 12 percent of men (15+) and 16 percent of women (15+) in 1992 to 16 percent and 21 percent, respectively, in 1998. See Statistics Canada (1999).

The "time-crunch" is likely to increase consumer demand for time-saving (but more expensive) products and services, as well as for more convenient, less time-consuming ways to buy things. In some circumstances, however, it may also lead to poorer consumer decisions, since less time and effort can be devoted to comparison shopping and reflection.

3.3 The Changing Ethnic Composition of Canadian Consumers

Immigrants and visible minorities are ever more present in the Canadian mosaic. Immigration has been increasing over the past decades. Between 1991 and 2000 alone, 2.2 million immigrants were admitted into Canada. Levels of immigration have been high for most recent decades: for example, 1.3 million immigrants came to Canada in the 1980s, and 1.4 million during each of the two previous decades (Citizenship and Immigration Canada data reported in Statistics Canada 2003d). In light of increasingly low birth rates, net immigration (as opposed to a natural increase) is the main contributor to population growth in Canada (see Figure 3.6). Consequently, the proportion of the Canadian population born outside the country (18 percent in 2001) is at a 70-year high, and is second only to that in Australia (22 percent) (Statistics Canada 2003d).

FIGURE 3.6



Population Growth, Canada, 1980–2002

Source: Statistics Canada, CANSIM, tables 051-0001 and 051-0004.

Compared to average Canadians, immigrants arriving in Canada are younger and more likely to be living in a metropolitan region.[144] In fact, almost all immigrants (94 percent) arriving in the 1990s took up residence in a metropolitan area, compared to an average of 64 percent of all Canadians who lived in metropolitan areas in 2001 (Statistics Canada 2003d).

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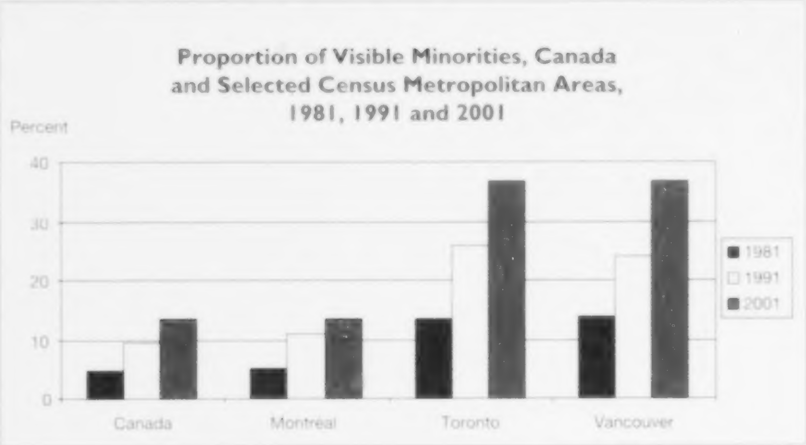
[144] Seventeen percent of immigrants who arrived in Canada during the 1990s were between the ages of 5 and 16, 46 percent were 25 to 44, and 17 percent were 45 to 64 (Statistics Canada 2003d). As a comparison, in the total Canadian population in 2001, 16 percent were age 5 to 16, 31 percent were 25 to 44, and 24 percent were 45 to 64 (calculations based on Statistics Canada, CANSIM, table 051-0001).

Another important characteristic is the increasing proportion of recent immigrants from Asia.[145] This in turn has increased the number of Canadians identifying themselves as visible minorities, from 5 percent of the total population in 1981 to 13 percent in 2001 (Figure 3.7), and this is projected to rise to 20 percent by 2016.[146] The number of young people in this category is increasing: 16 percent of those in their 20s belonged to a visible minority in 2001, triple the 5 percent rate of two decades ago (Anderssen and Valpy 2003). As an increasing number of young Canadians have direct links to the world beyond our borders, further "internationalization" of Canadian consumer demand can be expected. Cultural differences are indeed an increasingly important factor in the broader context of research in consumer matters.

FIGURE 3.7



Source: Statistics Canada 2003d.

The new faces of Toronto and Vancouver

Toronto and Vancouver, the chosen location of a majority of immigrants coming to Canada,[147] have high rates of foreign-born persons as a proportion of the total population (44 and 37 percent respectively) compared to other urban areas around the world known for their significant immigrant population.[148] In the case of Vancouver, the proportion of foreign-born individuals increased from just 30.1 percent in 1991.[149] Thus, most newcomers to Canada are quickly exposed to the full panoply of consumer products and marketing — North American-style — that is associated with two of Canada's largest, most dynamic and innovative consumer marketplaces.

Canada is further differentiated by the wide ranging make-up of its foreign-born population.[150] In Toronto and Vancouver,[151] about two out of five (37 percent) residents identified themselves as a visible minority in 2001, close to three times the national average. These cities are characterized by a number of distinct ethnic neighbourhoods (such as Toronto's Chinatown, Little Italy, Little Portugal, India Bazaar and Greektown), with unique business environments that include foreign-language signage and special imports, etc. Beyond these ethnic communities, certain sectors of these major urban marketplaces are also more broadly enriched by the increasing multi-ethnicity that favours new and different products, such as food services.

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[145] The proportion of immigrants arriving in Canada from Asian countries increased from 33 percent in the 1970s to 47 percent in the 1980s and to 58 percent during the 1990s. There has been a decrease in the number of immigrants from European countries, from 36 percent in the 1970s and 26 percent in the 1980s to 20 percent in the 1990s (Statistics Canada 2003d).

[146] The *Employment Equity Act* defines visible minorities as "persons, other than Aboriginal peoples, who are non-Caucasian in race or non-white in colour" (Statistics Canada 2003d).

[147] In the 1990s, 43 percent of immigrants coming to Canada located in Toronto and 18 percent in Vancouver. In comparison, Toronto accounted for 16 percent of the total Canadian population in 2001 and Vancouver for 7 percent (Statistics Canada 2003d).

[148] Comparisons include 59 percent of Miami's population, 41 percent for Los Angeles, 36 percent for New York City, 33 percent for Singapore, and 31 percent for Sydney. See United Nations 2004.

[149] See Statistics Canada, Canadian Statistics — Proportion of foreign-born population, by census metropolitan area (2001 Census), available at **www.statcan.ca/english/Pgdb/demo47a.htm**

[150] Toronto, for example, is said to be represented by more than 90 ethnic groups, whereas 96 percent of foreign-born people in Miami are from Latin America. See Conway Smith 2004.

[151] Montréal was the third most important destination of immigrants in the 1990s (12 percent), but this appears less significant because the proportion of immigrants it receives is closer to its share of the Canadian population (11 percent). Montréal's ratio of foreign-born as a proportion of its total population is at the national average (18 percent) (Statistics Canada 2003d).

Language barriers to understanding the Canadian marketplace

In 2002, 105 196 of the 229 091 immigrants (principal applicants and dependants) who arrived in Canada reported no language ability in either French or English (CIC 2003).[154] This compares to 95 993 of the 226 063 immigrants that came to Canada in 1996 (CIC 1996).[155] Longer time-series data on language ability at entry are unfortunately relatively difficult to access. However, it is recognized that, as source regions are now very different, "fewer entering immigrants have a home language that is either English or French" (Picot 2004, 16). In addition, results from the International Adult Literacy Survey indicate very poor literacy skills among the second-language foreign-born population (Tuijnman 2001).[156] Members of Canada's culturally diverse population may hence be at a greater disadvantage in their dealings with the marketplace (e.g. in interpreting a contract's terms and conditions).

Interacting with the Canadian marketplace may be difficult for immigrants (especially those from significantly different cultural backgrounds), and providing consumer information to newcomers can be a major concern.[152] Sixteen percent of non-European immigrants have said their understanding of their rights as a consumer and of the laws that protect consumers was "poor," which is twice the national average.[153]

As their numbers increase, visible minorities may encounter the challenges of discriminatory practices. This unfortunate problem appears to affect all members of visible minorities, whether foreign-born immigrants or persons born in Canada. When asked whether they had experienced discriminatory or unfair treatment in Canada in the past five years because of ethno-cultural characteristics, 18 percent of visible minorities who had been in Canada for two or more generations reported that such treatment occurred sometimes or often, only slightly less than the 21 percent reported by first-generation members of visible minorities (Statistics Canada 2003e). Discrimination not only has been reported in both the rental[157] and labour markets,[158] but also in stores, banks and restaurants. This service marketplace setting was identified by about 35 percent of those aged 15 and older in 2002 who had sometimes or often been discriminated against in the past five years (Statistics Canada 2003e).

Research opportunities

As the foreign-born population in Canada continues to increase, it will be important for consumer research to consider how the Canadian marketplace changes and to identify consumer challenges for this demographic group. For visible minorities in general, attention and responses to discriminatory market practices, whether related to earning or spending, are important issues. There may also be a need to examine issues of particular relevance to Aboriginal consumers. For these consumers, access to choice and redress in rural or remote areas may be a concern, while those in urban areas may face discriminatory or even predatory market practices, for example in trying to obtain short-term, unsecured credit.

As the needs, behaviours and expectations of particular communities with regard to the marketplace can vary significantly from one to another, analysis of existing consumer protection measures may need to better account for these differences. In 1990, for example, Ontario's law governing funeral directors and establishments was redesigned to take "into account the changing cultural nature of Ontario by broadening the types of services available" (Evasuk 1990, C10). Other sectors and marketplace transactions may require similar reviews.

3.4 Where We Live: The Geographic Distribution of Canadian Consumers

While Canada had one of the smallest census-to-census population growth rates in 2001 (a gain of 4 percent from 1996) (Statistics Canada 2002k), interesting trends are still noteworthy with respect to the geographic movement of the population. For one, even though Canada's population density is very low relative to other industrialized countries, it is nonetheless relatively concentrated in urban areas: in 2001, a majority (slightly more than 64 percent) of Canada's population lived in the country's 27 census metropolitan areas (Statistics Canada 2002k).

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[152] See, for example, "Shopping and Banking" from Manitoba Labour and Immigration, available at **www.gov.mb.ca/labour/immigrate/newcomerservices/4.html**

[153] Questions commissioned by the Office of Consumer Affairs as part of Environics Research Group's Focus Canada survey, 2002-III.

[154] Children under the age of 15 accounted for 37 935 of the 105 196 immigrants with no language ability in either official language. When considering only immigrants aged 15 and over, the proportion reporting no language ability in either French or English was close to 40 percent.

[155] Children under the age of 15 accounted for 38 452 of the 95 993 immigrants with no language ability in either official language.

[156] Among the native-born population, 13 percent of Canadians perform at Level 1 on the prose scale, a proportion that reaches 51 percent for the second-language foreign-born population. See Chapter 4 for details on the International Adult Literacy Survey scales and literacy levels.

[157] A study by University of Toronto sociologist Eric Fong reports that low-income visible minority immigrant residents in major Canadian cities are paying comparably high rents for poor quality housing (see Carey 2001).

[158] "… 56 percent of those who had sometimes or often experienced discrimination or unfair treatment because of their ethno-cultural characteristics in the past five years, said that they had experienced such treatment at work or when applying for work" (Statistics Canada 2003e, 21).

More precisely, the urbanization of Canada's population has been concentrated in four broad urban regions, which accounted for 51 percent of the total Canadian population in 2001: the extended "Golden Horseshoe" in southern Ontario, Montréal and its adjacent region, the Lower Mainland of British Columbia and southern Vancouver Island, and the Calgary–Edmonton corridor. Population growth in these four regions combined was 7.6 percent between 1996 and 2001, compared to virtually no growth (0.5 percent) in the rest of the country (Statistics Canada 2002k). This urbanization trend is also associated with a "donut" effect, that is, growth in urban areas is proportionately higher for the regions surrounding a metropolitan core (the suburbs) than in the core itself.[159]

Rural living predominates for Canadians in the Atlantic Provinces, Saskatchewan and the three territories.[160] Research documents a net exodus of youth from rural and small towns in every province between 1971 and 1996 (Statistics Canada 2001c). This affects the median age in rural areas, where it is higher and growing faster than in metropolitan areas.[161] Age-related consumer issues and challenges are therefore likely to be exacerbated in rural contexts. One example is in the case of rural areas, where the housing supply is typically limited to large dwellings on large properties, which are frequently not the most suitable for older individuals, especially women living alone (CMHC 2002).

The circumstances in which Canada's rural population lives require careful consideration when one is dealing with the marketplace. In the financial services sector, for example, consumer advocates have expressed concern regarding the high rate of bank branch closures in rural areas.[162] Individuals in rural areas, especially seniors, who are less mobile or less capable of using technology such as electronic banking may be unable to overcome the access and choice barriers that arise from living in sparsely populated areas with few retail banking outlets. Similar issues have been raised across Canada concerning other service infrastructures, such as post offices. In general, rural consumers can be disproportionately impacted by any retail store closures.[163]

Research opportunities

It is understandable that much consumer research will focus on the average situation of Canadians, that is, of urban and suburban dwellers. It is necessary, however, to ensure that consumer research on significant marketplace trends (such as changing retail formats and concentration and the electronic delivery of goods and services) considers the impact on the great number of Canadians whose daily access to the marketplace is markedly different from that of average Canadians. Government and consumer protection advocates should pay special attention to Canada's geographic realities when developing information and awareness materials, to evaluate the scope of the bias towards urban Canadians. Rural and northern consumer issues are likely to be fruitful avenues for researchers.

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[159] Considering Canada's 27 census metropolitan areas (CMAs) as a group, 1996–2001 population growth in the core municipalities is reported to be 4.3 percent, half the 8.5 percent growth rate of their surrounding municipalities (Statistics Canada 2002k).

[160] In 2001, the proportion of the population living in predominantly rural regions was 53 percent in Newfoundland and Labrador and in Saskatchewan, 60 percent in Nova Scotia, 78 percent in New Brunswick, and 100 percent in the three territories and Prince Edward Island (since all of the latter's population was classified as "predominantly rural" according to the Organisation for Economic Co-operation and Development definition used in the report) (Agriculture and Agri-Food Canada 2002).

[161] The median age of the population living in rural and small town areas increased 3.5 years since 1996 and reached 39.0 years in 2001, compared to an increase of 1.8 years for census metropolitan areas to 37.0 years (Statistics Canada 2002l).

[162] A Public Interest Advocacy Centre study suggested a loss of approximately 45 percent of bank branches between 1989 and 1998, a situation that consumer representatives fear may lead to increasing reliance on expensive and unregulated alternative services for the population in rural areas (PIAC 2000).

[163] In the words of one rural resident commenting on the closing of a used-clothing store: "I don't know if they understand the difference between small towns and big cities and the miles we have to travel." See Haight 2003, A13.

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CHAPTER

Consumer Literacy and Education

Summary

4.1 Better Educated Consumers

Canadian consumers, on average, are more highly educated than ever. The general increase in education levels gives rise to more efficient consumer behaviour. In addition, higher education levels suggest a general increase in the ability to afford consumer goods and services: post-secondary education is key to entering into today's skill-based labour market. However, these rising education levels have come at an increasing cost: since 1980, the tuition fee component of the consumer price index (CPI) has grown at twice the average rate of the all-items CPI. At the other end of the spectrum, a significant number of Canadians still possess a relatively low level of education, and are at continuing risk of further exclusion in a world of continuous learning. **Research opportunities** include further analysis of the combined effect of improved education and higher debt on participation in the marketplace. A deeper understanding of how less literate consumers — particularly youth — deal with the marketplace would also be useful, as they are likely to be more vulnerable and susceptible to fraud.

4.2 Consumer Literacy Challenges

A significant proportion of Canadians face literacy challenges, particularly elderly Canadians. This is cause for concern given how literacy is essential for most consumption decisions. Poor consumption decisions arising from low literacy skills may result in financial or material cost to the consumer, and the interplay of poor literacy skills and consumption of health products may increase real, physical risks. Financial literacy in particular is critical to managing one's money in today's marketplace, as the principle of disclosure is behind many aspects of consumer protection policy in the financial services sector. **Research opportunities** include identifying ways of improving real access to consumer information for the large proportion of Canadians with less-than-adequate literacy skills. With respect to seniors' literacy, a thorough analysis of risks to their well-being could shed light on ways to improve their interaction with the marketplace. Finally, further research into financial literacy could include assessment of consumers' financial knowledge and of how well information disclosure enhances consumer protection.

Chapter Four
Consumer Literacy and Education

As levels of formal education in Canada have continued to rise over time, the knowledge and literacy consumers require to successfully navigate the marketplace have become more complex. Nevertheless, both as members of the labour force and as consumers, some Canadians are just keeping up with a marketplace that is becoming more sophisticated, while others are clearly being left behind. This chapter looks at the trends in educational attainment of various demographic groups in Canada, with an emphasis on literacy as it relates to the marketplace.

4.1 Better Educated Consumers

On average, Canadian consumers are more highly educated than ever before. Over the last two decades, the proportion of Canadians 25 years of age and older with some post-secondary education increased from 29 percent in 1981 to nearly half (48 percent) in 2001 (see Figure 4.2). Statistics Canada reports that the Organisation for Economic Co-operation and Development (OECD) ranked Canada fourth in 2001 among member countries in the proportion of its working-age population with a university degree.[164] However, if one includes the two parallel systems of education after high school in Canada, by combining university and community college graduation figures, Canadians led in the OECD in the proportion of its population with *either* a college or university education.

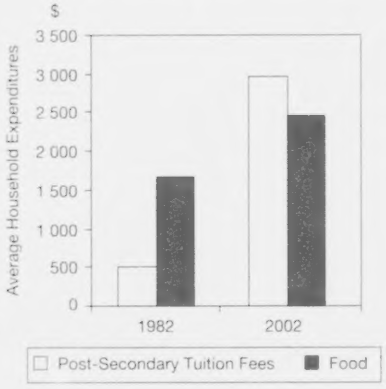
Research suggests that a rise in education levels can lead to more efficient consumer behaviour, such as paying less money for the same goods and services (HRDC and OECD 2000). Rising education levels in Canada have come, however, at an increasing cost: the tuition fee component of the CPI has grown by an average of 8 percent per year since 1980, twice the average rate of the all-items CPI.[165] Consequently, for many Canadians, achieving a higher education level is closely linked to how well they manage their rising education expenditures and student loans.

The rising costs of education

Young Canadians pursuing education face rising costs. From 1982 to 2002, the tuition fee component of the CPI grew by a rapid average annual rate of 8.1 percent, compared to 3 percent for the all-items CPI. For households that report post-secondary tuition fees, this represents a significant change in the relative importance of education as part of their expenditures. In 2002, for instance, their average spending for tuition fees actually exceeded expenses for food (see Figure 4.1). Coping with these tuition costs has led to a rise in student loans (see Chapter 8) and may also partly explain the rise in the proportion of 25–29 year olds still living with their parents, which doubled from 12 percent in 1981 to 24 percent in 2001 (Statistics Canada 2002b).

FIGURE 4.1

Post-Secondary Tuition Fees and Food, Average Household Expenditures per Reporting Household, All Households, 1982–2002



Source: Statistics Canada, Family Expenditure Survey (1982, 1986, 1992) and Survey of Household Spending (1997, 2002).

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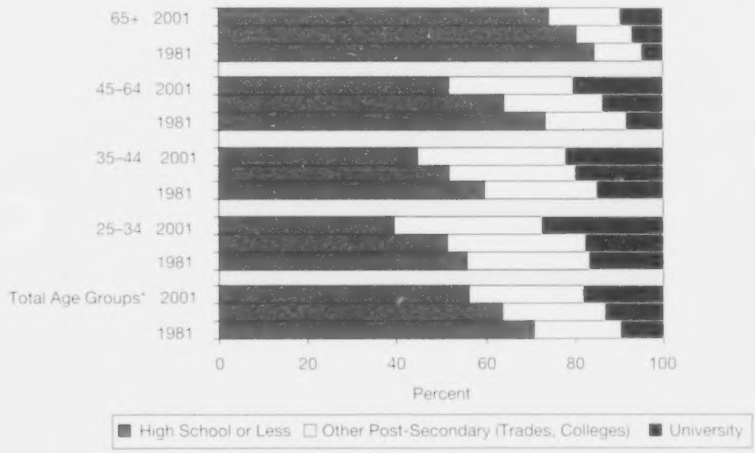
[164] Canada was preceded only by the United States, Norway and the Netherlands. See Statistics Canada 2003.

[165] The CPI is calculated as a weighted average of specified commodity price indexes, and weights are periodically revised and derived from surveys such as the Survey of Household Spending. According to the 2001 Survey of Household Spending, 83 percent of tuition fee expenditures were for post-secondary education. The tuition fee component of the CPI is thus a good approximation of trends in post-secondary tuition fees.

FIGURE 4.2

Highest Degree Earned, by Age Group, Canada, 1981, 1991 and 2001



*The 15-24 age group was deleted from the total age groups, so as to consider relatively final educational attainment.

Source: Office of Consumer Affairs calculations based on Statistics Canada Cat. No. 97F0017XCB01002.

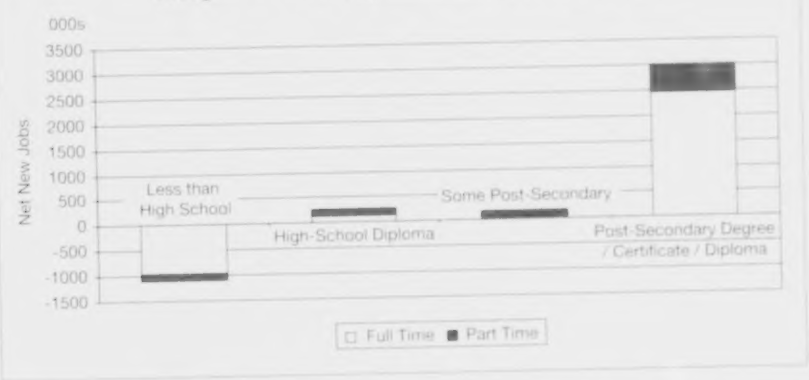
Recent advances in educational attainment have been linked to a higher demand for skills in the labour market and the focus of immigration policy on skills (Couton 2002). Research has also found, however, that the challenging circumstances faced by youth during the recession of the 1990s may have affected the decision making of the group of young Canadians that followed. In 2001, the educational attainment of individuals 25 to 34 years of age indeed rose significantly compared to previous groups of the same age. The increase in the proportion of Canadians in this age group with university qualifications in 2001 was particularly strong, rising to 28 percent from 17–18 percent over the previous two decades. Those young Canadians were 15 to 24 years of age during the early 1990s, which implies that during the recession, they were at an age to be making assessments of the trade-offs between continuing their post-secondary education and trying to enter the labour market. In light of anticipated difficulties in finding a job, members of the post baby-boom generation may have chosen to pursue further schooling (Statistics Canada 2003).

Consumers' changing education paths will define tomorrow's senior population

Considering the educational characteristics of age groups within the baby-boom cohort, it is reasonable to anticipate that tomorrow's seniors will be equipped with significantly different skills than today's older consumers. For example, in 1977 only 6 percent of working women 45 to 49 years of age had a university degree. This proportion increased to 19 percent of working women 45 to 49 years of age (members of the baby boom) in the labour market in 1997 (Earl 1999). The corresponding ratios for men were 9.5 and 23.1 percent, respectively. Future generations of seniors, therefore, are not expected to have much in common with the earlier generation. "With higher education levels and more varied work experiences, tomorrow's seniors may have a better knowledge of community and government programs and services … and be more likely to demand their rights" (NACA 1999, 5) both as consumers and citizens.

Virtually all net job creation since 1990 has required that job applicants have a post-secondary education. Between 1990 and 2002, slightly more than 3 million net new jobs were created that required post-secondary education (see Figure 4.3). Most of these jobs (81.7 percent) were full time. In comparison, there was a net *loss* of more than 1 million jobs during this period for workers with less than a high-school diploma, with the majority of this loss (88.1 percent) occurring in full-time positions. Net job creation for Canadians with a high-school diploma (but without a post-secondary degree) was positive, although very small, for both full-time and part-time positions.

FIGURE 4.3



Net Job Creation, by Education Level, 1990–2002

Source: Office of Consumer Affairs calculations based on Statistics Canada, CANSIM, series v2582419–v2582424 and v2582428–v2582433.

Interestingly, a Statistics Canada research report concludes that, in spite of the shift towards a knowledge-based economy and an increasing proportion of better educated workers in Canada, the relative advantage of education, in terms of earnings and likelihood of finding a job, has not changed. Specifically, the report states that:

> more highly educated workers have higher earnings, and a higher likelihood of being employed than less educated workers, but no more so than they used to. Research suggests this is due to the rapid increase in the supply of highly educated workers in Canada, which offsets an increase in the demand for their labour (Heisz et al. 2002, 26).

Post-secondary education has become the minimum requirement for Canadians to be able to simply maintain a standard of living comparable to that of previous generations. An increasing proportion of tomorrow's working-age population

Self-employment, another important new work opportunity

A 2000 report indicates that, for reasons not fully understood, there was a substantial change in the kinds of jobs created over the last two decades, from mainly full-time paid jobs in the 1980s to self-employment in the 1990s:

> Over the 1990s cycle to date (1989 to 1998), full-time paid jobs accounted for only 18 percent of all net job creation in Canada. Over the 1980s cycle, this was 58 percent. … Self-employment accounted for about 58 percent of the net change during the 1990s [and] only 18 percent during the 1980s … (Picot and Heisz 2000, 510).

The relative shift into self-employment has had several important consumer implications. For example, earnings of self-employed workers are more polarized than those of paid workers: in 1995, about 45 percent of the self-employed made less than $20 000 and 4 percent made more than $100 000, while the proportion of paid workers making these amounts was 26 percent and 1 percent respectively (Statistics Canada 1997a). Also, many self-employed persons may lack important benefits available to paid workers, such as disability coverage, parental leave, pension plans and unemployment insurance (Hughes 2003). Other things being equal, the lack of fringe benefits may have a negative impact on consumption, since these individuals may be forced to save at a higher rate in order to cushion the impact of uncertainty, whether in terms of job prospects or health. In spite of these disadvantages, workers may choose self-employment simply because they prefer it. Professionals, for example, may enjoy the greater autonomy associated with self-employment (Krahn 1995, 35). An American study indicates that women, especially those with young children, are more likely than men to state that flexibility of work schedule and family-related responsibilities are important reasons for becoming self-employed (Boden 1999).

appears to understand these requirements, even with the favourable employment climate of the last few years, and is opting for prolonged studies. For instance, in 1991, 32 percent of young adults 20 to 24 years of age were attending school full time, but in 2001 about 4 out of 10 were doing so (Statistics Canada 2003).

Lack of education still hinders some consumers

Despite the relative rise in educational attainment, some groups of Canadians remain more vulnerable because of their lower-than-average schooling. In 2001, 57 percent of seniors did not have a high-school diploma (Statistics Canada 2003). Low education levels are part of the recognized socio-economic risk factors affecting safety and security for older adults (Government of British Columbia 1999), factors that can notably increase vulnerability to fraud.

Not only seniors with low educational attainment are at risk. Given the requirements of today's labour market, it is of concern that about one in seven young adults 25 to 34 years of age in 2001 had not completed high school (Statistics Canada 2003). This trend has important implications for these young Canadians as consumers in an increasingly information-intensive marketplace. There are strong connections between educational attainment and literacy; for example, literacy scores of 20–29-year-olds lacking a high-school education are significantly lower than those of graduates. Moreover, literacy scores of Canada's high-school dropouts were significantly lower than of dropouts in other countries: "they are so low, that Canada's overall literacy rate is among the lowest of OECD countries despite Canada having one of the highest proportions of post-secondary graduates" (HRDC 2000, 29). These consumers are making independent consumer decisions about essentials (housing, transportation, food), often for the first time. Since even these basic choices may involve dealing with complex information, the low educational attainment and literacy levels of these consumers puts them at a serious disadvantage.

Acquiring the knowledge and skills to cope with the demands of today's marketplace no longer means only educating the young, however:

> The globalization of markets, the speed and fluidity of communications, the rapid pace of change in knowledge and technology, the accelerated rate of social change, the need for job market retention or re-entry and the increasing complexity of social life are all factors that require adults to have sufficient basic education and to update their skills in order to adapt (Ministère de l'Éducation 2001, 3).

Research opportunities

The negative impact on consumption of carrying large student debt over the long term may be offset by improved job prospects, remuneration and the capacity to deal with market complexity. The combined effect of improved education, debt and the marketplace requires further analysis.

Comparisons between the challenges of shopping faced by today's seniors and by tomorrow's better-educated seniors could lead to useful marketplace and policy changes. A deeper understanding of how less literate young people deal with the marketplace would also be useful. These young people share many characteristics with seniors, whose susceptibility to fraud is well understood. Protecting vulnerable young people effectively could be greatly aided by adjusting successful senior-oriented programs to their specific needs. The potential lack of marketplace choices for vulnerable youths (due to their inability to work through complexity) and their perception of barriers in certain markets (for instance, in banking) require more intensive consideration.

In a 1997 survey, 28 percent of Canadians 17 years of age and older reported participating in adult education and training, making this a major component of education and training in general.[166] In spite of this, a general "law of inequality" is a concern in Canada, with data suggesting that the higher the educational attainment, the more likely a person is to participate in adult education (Statistics Canada 2001, 18). In Canada as in a number of other OECD countries, there is a risk of increasing marginalization of "large groups outside the emerging learning society" (OECD and Statistics Canada 2000, 43), that is, those who need better skills, but are less likely to participate in formal and informal education.

4.2 Consumer Literacy Challenges

Literacy is extremely important because "society rewards individuals who are proficient and penalizes those who are not, whether expressed in terms of employment opportunities and job success or active social, cultural and citizenship participation in society" (Statistics Canada, 1997b, 1). Literacy skills are a vital component of many aspects of consumer behaviour. The concept of literacy has evolved and broadened over time:

> Literacy now means more than the basic ability to read and write. Literacy skill levels now also reflect a person's ability to understand and use information, a key function in a world where daily living requires higher communication and information processing skills (Statistics Canada, 1997b, 1).

In the mid-1990s, a major initiative was launched to fill a large data gap regarding literacy. The International Adult Literacy Survey (IALS) was a joint effort of various governments, national statistics agencies and international organizations, with Statistics Canada playing a significant role in the development and management of the survey. The IALS was conducted in three stages for 23 countries (9 countries participated in 1994, 5 in 1996 and 9 in 1998) (OECD and Statistics Canada 2000, ix). While many previous efforts had treated literacy as an absolute condition (that is, a skill adults either had or did not have), the IALS measured literacy skills along a broad continuum. In its conceptual framework, the IALS defined *literacy* as:

> the ability to understand and employ printed information in daily activities, at home, at work and in the community — to achieve one's goals, and to develop one's knowledge and potential (OECD and Statistics Canada 2000, x).

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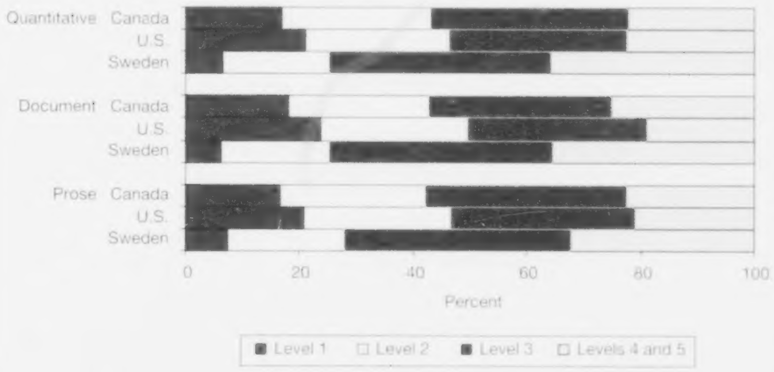
[166] An adult learner generally excludes all regular, full-time students and other students 17 to 24 years of age. However, the definition includes full-time students subsidized by employers; full-time students older than 19 enrolled in elementary or secondary programs; and full-time students older than 24 enrolled in post-secondary programs. In the survey question, training and education were defined as courses, private lessons, correspondence courses (written or electronic), workshops, apprenticeship training, and arts, crafts and recreation courses, or any other training or education. Based on the Adult Education and Training Survey presented in the report, there are five times as many adult students as full-time students (classified as youth). See Statistics Canada 2001.

The IALS revealed that, overall, Canada performed somewhat better than the United States, but significantly worse than Sweden, the most literate nation in the world (see Figure 4.4). Compared to 19 other nations, Statistics Canada reports that Canada ranked 5th on the prose scale (the U.S. was 10th), 8th on the document scale (U.S. 13th) and 9th on the quantitative scale (U.S. 12th). The data also show that 4 out of every 10 Canadians 16 to 65 years of age fall in the two lowest groups (Level 1 or Level 2) on all three literacy scales, i.e., at levels of literacy that are below the minimum desirable threshold (Statistics Canada 2000).

FIGURE 4.4

Percentage of Population Aged 16 to 65 at Each Literacy Level, Canada, United States and Sweden,* 1994–1998



*Of 22 countries, Sweden had the highest percentage of adults registering in Levels 4 and 5 literacy for all three literacy concepts (quantitative, document and prose).

Source: *Literacy in the Information Age: Final Report of the International Adult Literacy Survey*, OECD and Statistics Canada, 2000 (Table 2.2, pp. 136–137).

The IALS revealed a strong correlation between literacy skills and age (see Figure 4.5). In particular, elderly Canadians were much more likely to have lower levels of literacy. The document scale revealed that the percentage of Canadians 15–24 years of age scoring in the lowest two levels (32.7 percent) was less than half the rate of older working-age adults (67.2 percent for those 55–64 years of age) and seniors (79.3 percent for those 65 years of age and older) (Statistics Canada 1998, 51, Table 2.1).

Interestingly, however, many functionally illiterate older people do not realize or admit a deficiency in their literacy skills. For example, 63.8 percent of people 65 years of age and older and at Level 1 (reading, prose scale) self-rated their reading ability as "good to excellent" (Statistics Canada 1998, 63, Table 2.17).

International Adult Literacy Survey

The IALS entailed a series of tasks to test three concepts of literacy.

Quantitative: The knowledge and skills needed to apply arithmetic operations to numbers embedded in printed materials (e.g. balancing a chequebook, completing an order form, determining the amount of interest on a loan from an advertisement).

Document: The knowledge and skills needed to locate and use information contained in various formats (e.g. tables, schedules, charts, graphs, maps).

Prose: The knowledge and skills needed to understand and use information contained in various kinds of texts (e.g. newspapers, brochures, instruction manuals).

The literacy tasks in the IALS were assigned a point value from 0 to 500 (i.e. the more difficult the task, the higher the point value). Subsequently, this range was divided into five broad levels of literacy.

Level 1 indicates a very low level of literacy, so that an individual has difficulty performing the most basic of tasks (i.e. identifying the correct dosage of medicine from information found on the package). A person is identified as Level 1 when they can perform all, some or none of the Level 1 tasks, but are *not* at Level 2.

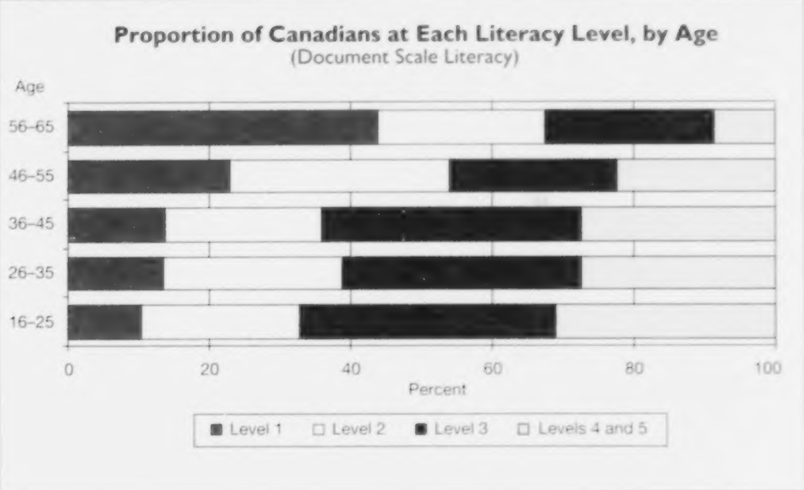
Level 2 indicates a level at which respondents can only deal with material that is simple and clearly presented, and at which the tasks involved are not very complex. This category typifies people who may have adapted their lower literacy skills to everyday life, but may have difficulty learning new tasks that require a higher level of literacy.

Level 3 is considered the minimum desirable threshold of literacy skills in many countries.

Levels 4 and 5 indicate higher literacy skills, such as the ability to integrate several sources of information or to solve complex problems.

Source: HRDC 2003

FIGURE 4.5



Proportion of Canadians at Each Literacy Level, by Age
(Document Scale Literacy)

Source: *Literacy, Economy and Society*. Organisation for Economic Co-operation and Development and Statistics Canada, 1995, p. 153, Table B-11b.

To make good purchasing decisions, literacy is virtually essential. While bad decisions arising from poor literacy skills may result in financial or material costs to the consumer, bad decisions about health products are of particular concern. For example, Statistics Canada notes that 72 percent of Canadians 65 years of age and older with Level 1 literacy (prose scale) say they do not need assistance when reading instructions on a medicine bottle (Statistics Canada 1998). This compares to more than 98 percent of those with prose literacy Levels of 3 or 4/5. Many seniors often have multiple prescriptions, sometimes not even prescribed by the same doctor. Given the potential consequences of taking a wrong dosage or mixing inappropriate prescription medicines, the difficulties experienced by some seniors regarding their literacy is an especially worrisome marketplace issue.

In addition, a strong correlation between literacy and general health has been noted. One explanation for this finding may be that:

> Persons with higher [literacy] skill may maintain better health through their ability to understand and interpret health information. They may also be better able to exercise preventive health practices and detect problems so that they can be treated earlier, or make appropriate choices amongst health care options (HRDC 1996, 7).

Other IALS tasks also demonstrate a clear relationship between literacy and marketplace issues for consumers. For example, a Level-3 prose task referred respondents to a page in a bicycle owner's manual to determine how to ensure the seat is in the proper position; 42.2 percent of Canadians 16 to 65 years of age tested below Level 3 on the prose scale, indicating insufficient skills to complete this task. A Level-3 task on the document scale required individuals to use a bus schedule to identify the arrival of the last bus on a Saturday night, a skill lacked by the 42.9 percent of respondents below Level 3 (OECD and Statistics Canada 2000). Finally, a Level-4 task on the quantitative scale required individuals to use a chart to determine the amount of money they would have after investing $100 over 10 years,[167] a skill lacked by 77.8 percent of respondents (OECD and Statistics Canada 1997, 128). Based on these examples, it is apparent that people with less than the minimal Level-3 literacy rating face significant challenges in the marketplace.

Financial literacy is essential

Unless consumers are financially literate, they are vulnerable to problems such as fraud or the mismanagement of credit. Alan Greenspan, Chairman of the U.S. Federal Reserve Board, noted at the launch of an economic and financial education initiative:

> Focussing on improving fundamental mathematical and problem-solving skills can develop knowledgeable consumers who can take full advantage of the sophisticated financial services offered in an ever-changing marketplace (Greenspan 2003).

A survey by a Quebec consumer group has identified seniors and Canadian consumers with low incomes as groups with below average financial knowledge. Participants were asked to respond to a list of 17 questions about financial matters. The average number of correct responses was 7.2, but only 5.2 for seniors and 5.5 for people belonging to households with annual incomes of less than $20 000 (Fédération des ACEF du Québec 2001). Another survey, conducted for the Ontario Securities Commission and relating to investments, found:

> Only 18% of Ontarians consider themselves to be highly knowledgeable about investments. And 26% of those surveyed did not understand one of the basic tenets of investing, one of concern to regulators — the relationship between risk and return (Conacher 1998).

The principle of disclosure is behind many aspects of consumer protection policy in the financial services sector. Despite an emphasis on using plain language, a 1998 assessment on the readability of common financial documents found that all of them demanded a college or university education, and that virtually all were either "difficult" or "very difficult" to read (Colbert, Carty and Beam 1999). Consequently:

> Findings in this section of the [Task Force] study suggest a great gap between the characteristics of the documents and the capacity of their audience to understand them. They suggest that the purpose of such documents is disclosure in response to regulatory requirements, rather than genuine communication with consumers (Colbert, Carty and Beam 1999, 58).

Research opportunities

The overwhelming proportion of Canadians with less-than-adequate literacy skills for effective interaction with the marketplace should be of great concern. Research into effective ways of improving real access to consumer information by these Canadians, in the absence of solutions to the literacy problems per se, is urgently needed. The dangers to health posed by poor literacy skills among Canadian seniors have been described. A thorough analysis of other risks to senior consumers' well-being based on literacy could shed light on ways to improve their interaction with the marketplace.

Beyond basic reading skills, financial literacy is key to long-term security for most consumers. In a period characterized by time-constrained households, changing school curriculums, and an information-intensive marketplace, further research into financial literacy will require both additional assessments of consumers' knowledge, and consideration of how information disclosure can play an effective role in enhancing consumer protection.

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[167] This task received a Level-4 rating because the chart only presented information on the amount of interest earned. The individual was required to add this amount of interest to the principal amount (i.e. $100) to determine the correct answer (OECD and Statistics Canada 1997).

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CHAPTER

Consumer Income

Summary

The economic recovery beginning in the mid-1990s has substantially increased Canadians' after-tax incomes. This is particularly true for high-income earning families, which has the effect of creating a more polarized earnings distribution in Canada. In terms of family types, two-parent families with children and lone-parent families have both made substantial gains in their median after-tax income during the latest economic recovery. However, relative to two-parent families with children, lone-parent families still face severe financial pressures. Elderly Canadians made more substantial gains in the previous recovery of the 1980s.

In contrast, the earnings performance of recent immigrants to Canada has deteriorated over the last 20 years, resulting in a rising proportion of immigrant families experiencing low income. **Research opportunities** include more detailed analysis of income by household type, such as households consisting of couples living with other relatives, the "sandwich generation," and empty-nesters versus childless young couples. Continued research into the circumstances of other groups of Canadians with lower than average incomes (e.g. immigrants, lone-parents) would also be useful.

Chapter Five
Consumer Income

Income — that is, after-tax income — is a critical element in the ability of Canadians to participate in the marketplace. Income is required to purchase goods and services — those necessary for survival and those that make life more enjoyable. How Canadians interact in the marketplace, therefore, greatly depends on their financial resources.

The general performance of the economy — especially the labour market — is a major determinant of the income received by Canadian families. In fact, the main source of income for Canadians is labour market earnings, which in the aggregate accounted for 77.9 percent of total income in 2001.[168] Other sources of income include privately held investments (3.5 percent of total income in 2001), private retirement income (5.7 percent) and federally and provincially administered transfer programs (11.2 percent).[169]

While poorer Canadians are understandably concerned about their income levels, public opinion research suggests that many middle- and even upper-income Canadian families are too. For example, a 2002 survey revealed that 41 percent of Canadians with a household income of between $40 000 and $60 000 reported being "very concerned" about having sufficient money "to purchase food necessary for a basic and balanced diet," and close to half (45 percent) said they were "very concerned" about being able "to obtain basic shelter conditions for [their] family."[170] Many upper-income Canadians are similarly concerned. About one third of Canadians in the survey's top household income group ($80 000 or more) reported being "very concerned" about having sufficient money for a basic and balanced diet and to obtain basic shelter conditions for their family.

Consumers' incomes increased after mid-1990s recovery

As is generally the case, family income has been correlated with the overall performance of the economy over the last two decades — experiencing declines in the early 1980s and 1990s and making recoveries in the later years of each decade. The economic recovery beginning in the mid-1990s, in particular, substantially increased Canadian families' after-tax incomes, since it was on average stronger than the one that occurred a decade earlier. When considering families in the middle income quintile,[171] their average after-tax income in 1989

Income concepts

Market income and after-tax income are related by the following equation:

Market income + government transfers − income taxes = **After-tax income**

Market income comprises four categories:

- earnings: wages and salaries and self-employment income;
- retirement income: from *private* sources (primarily employer pension plans);
- investment income: includes dividends, net rental income, etc., but excludes capital gains from the sale of an asset; and
- other income: includes support payments, severance pay, etc.

Government transfers comprise two categories:

- federal transfers: includes CPP, EI benefits, etc.
- provincial transfers: includes social assistance, provincial tax credits, etc.

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[168] Unless otherwise stated, the source of all data in this chapter is *Income Trends in Canada 1980–2001* (Statistics Canada 13F0022XCB).

[169] "Other income" accounted for the remaining 1.7 percent of total income in 2001.

[170] Questions commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey (2002, first quarter).

[171] The average income (after tax, economic family) of the middle quintile is used here as a reference point for the typical Canadian family.

($48 064) was slightly less than the previous peak ($48 767) in 1980, but stood at an all-time high ($51 074) in 2001, after an extremely buoyant period in the late 1990s and first two years of this decade.

Income distribution has become more polarized

An examination of after-tax income (using quintile analysis) reveals further differences between the two most recent economic recoveries.[172] First, Canadian families in the lowest income quintile made the most substantial gains (in percentage terms) in their after-tax income during the recovery in the 1980s. These families experienced a gain of 7.4 percent (or $1400) in their average after-tax income over the decade,[173] while the other 80 percent of Canadian families were roughly in the same financial position in 1989 as they were in 1980[174] (see Figure 5.1).

In contrast, the most recent recovery was led by Canadian families at the top of the income scale. In fact, from the trough in 1993 to the peak in 2001, families in the top income quintile experienced a 23.9-percent increase in their average after-tax income, while increases experienced by the other four quintiles over this period ranged from a low of 9.7 percent (lowest quintile) to 15.3 percent (second highest quintile).

As a result, income distribution in Canada has become more polarized in recent years. When taking into consideration taxes and transfers, the highest family income quintile received 5.5 times more income in 2001 than did the lowest family income quintile, which represents the highest after-tax ratio in the last 20 years.

As for middle and lower-middle income Canadian families, the data reveal a prolonged period of stagnation in their after-tax incomes over the last 20 years. At the end of each decade (i.e. in 1989 and 1999), families in the second lowest and middle (after-tax income) quintiles had yet to recover to their real average after-tax family income level of 1980, while families in the other quintiles had all recorded gains by the end of each decade.

Income polarization reflected in neighbourhood segregation

A recent Statistics Canada report concluded that the income gap between richer and poorer neighbourhoods rose from 1980 to 2000 (and especially from 1990 to 2000) in most census metropolitan areas (Heisz and McLeod 2004). In Toronto, for example, median family income in the poorest 10 percent of neighbourhoods amounted to $32 900 in 2000, up 2.6 percent from 1980. In contrast, median family income for the richest 10 percent of neighbourhoods was $92 800, up 17.4 percent (Statistics Canada 2004). Depending on the geographic distribution of neighbourhoods and their size, this may have an impact on the types of locally based retail services.

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[172] See the appendix for further information regarding the use of income quintiles to analyze family income.

[173] The real average after-tax income for the lowest quintile of economic families increased from $18 858 in 1980 to $20 258 in 1989.

[174] Of the remaining four groups, the highest income quintile made the strongest gain (+1.8 percent) over the decade, while those in the middle quintile were the furthest behind (-1.4 percent).

Family concepts

All references to families in this chapter refer to economic families, a broader concept than a Census family (the unit of analysis in Chapter 3 on demographics).

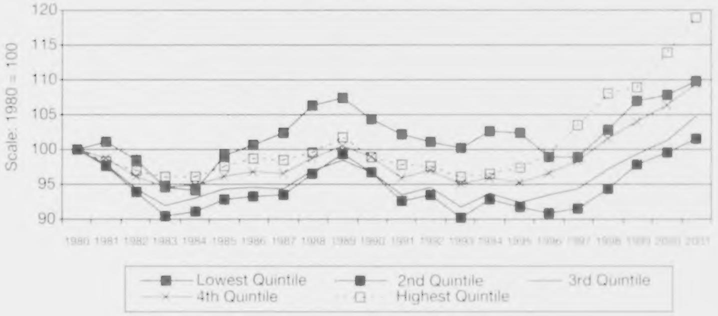
- Economic family: a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage or adoption.
- Census family: requires that family members be a male or female spouse, a male or female common-law partner, a male or female lone parent, or a child with a parent present.

For example, a brother and sister living together (without their parents) are an economic family (since they are related by blood), but would not constitute a Census family. By definition, all persons who are members of a Census family are also members of the same economic family.

Sources: *Income in Canada: 2000* (Statistics Canada Cat. No. 75-202) and *2001 Census Dictionary* (Statistics Canada Cat. No. 92-378).

FIGURE 5.1

Growth in Average After-Tax Family* Income by Quintile, 1980–2001**



* Two or more persons.

** In constant 2001 dollars.

Source: *Income Trends in Canada* (Statistics Canada CD-ROM, 13F0022XCB, Table 7.03).

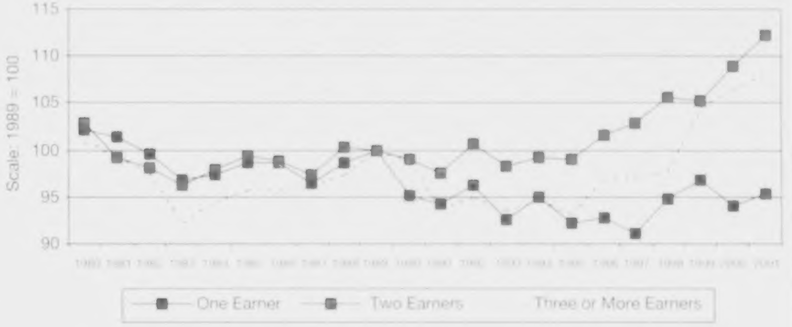
Income gains for two-parent families with children and two earners

Examining after-tax income by family structure is a complementary method to quintile analysis in looking for key income trends. Statistics Canada notes that it is necessary to take family size into account when examining family incomes to study issues such as income adequacy or socio-economic status. For this reason, family incomes are often presented by specific family types, since the differences in family size within each type are generally not significant (Statistics Canada 2003, 133). A further benefit of studying income trends by family type is that several measures have been developed to examine the low-income situation in Canada from a family perspective.

Two-parent families with children made substantial gains in their median after-tax income over the 1990s: their incomes reached $58 532 in 2001, which represented an all-time high and a 16.9-percent increase (from $50 081) compared to their median after-tax income in the trough of 1993. However, the data reveal that this was largely the result of adding an additional earner to the labour market. For example, the median after-tax income for two-parent families with children and only one earner was $38 599 in 2001 — a 4.7 percent decline from 1989 (and a 6.7 percent decline from 1980) (see Figure 5.2). In comparison, two-parent families with children and two earners witnessed significant increases in their median after-tax incomes: a gain of 12.2 percent relative to 1989 and 9.1 percent relative to 1980.

FIGURE 5.2

Growth in Median After-Tax Income,* 1980–2001
(Two-Parent Families With Children, Selected Number of Earners)



* In constant 2001 dollars.

Source: *Income Trends in Canada* (Statistics Canada CD-ROM, 13F0022XCB, Table 6.05).

Lone-parent families still tend to have lower incomes

The financial situation of lone-parent families has improved dramatically over the last decade, particularly the last four years. Whether measuring from 1989 to 2001 (peak-to-peak) or 1993 to 2001 (trough-to-peak), lone-parent families have experienced the most rapid growth in median after-tax family income of any economic family type.

However, in spite of these substantial improvements for most household types, relative to two-parent families with children, lone-parent families still face severe financial pressures: their median after-tax income in 2001 was approximately half that of two-parent families with children ($29 133 versus $58 532). While this difference is very substantial, it must be recognized that lone-parent families are, on average, smaller than two-parent families with children. For example, lone-parent families consisted of an estimated average 2.9 people in 2001, compared to 4.1 people for two-parent families with children.

Lone-parent families, however, are still much more likely to have low incomes than are other family types. In 2001, the rate of low income[175] among lone-parent families (28.6 percent) was about four times higher than that of two-parent families with children (6.7 percent) and five times higher than for married couples without children at home (5.8 percent).

Elderly consumers maintain income gains

The median after-tax income of elderly Canadian families was $31 103 in 2001, almost unchanged (+0.9 percent) from the trough of 1993. In contrast, the median after-tax incomes of unattached[176] elderly individuals increased 8.9 percent over this period (from $15 365 to $16 734 for women and from $16 744 to $18 232 for men).

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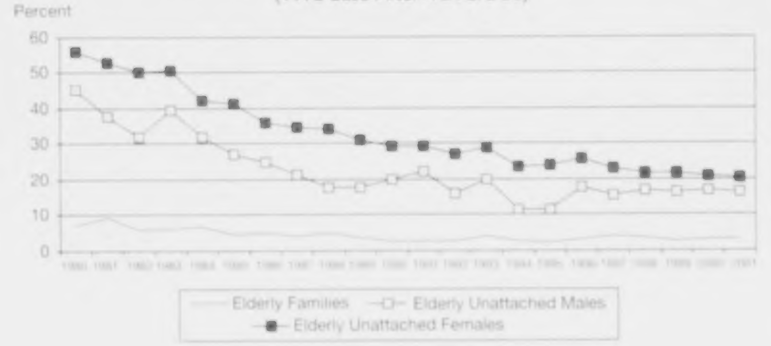
[175] The rate of low income is based on Statistics Canada's low income cut-off (LICO). See the appendix for further details on this indicator of low income.

When considering the two-decade period in general, a major international success story is Canada's substantial reduction in low-income rates among the elderly (see Figure 5.3). The low-income rate of elderly Canadians (elderly families and unattached seniors) was dramatically lowered during the 1980s.[177] This phenomenon occurred during a period in which transfer payments to seniors increased rapidly. When comparing 1980 and 2001, the low-income rate for elderly families was cut by more than half, declining from 7.1 percent to 3.3 percent. Even more impressive is the reduction in low income experienced by unattached elderly Canadians over this period: from 45.5 to 16.4 percent for men and from 56.1 to 20.5 percent for women.

FIGURE 5.3

LICO Prevalence Among the Elderly, 1980–2001
(1992 Base After-Tax LICOs)



Source: *Income Trends in Canada* (Statistics Canada CD-ROM, 13F0022XCB, Table 8.04).

Earnings of recent immigrants worsen

It is not currently possible to examine the earnings performance of recent immigrants to Canada using Statistics Canada's main income information source.[178] Some recent studies using Census data provide interesting insights, but it should be noted that, due to differences in data sources, direct comparisons should not be made between the information below and the numbers cited earlier in this chapter.

Current research reveals that the earnings of recent immigrants to Canada (especially males) have deteriorated over the last 20 years, and that immigrants are not doing as well as native-born Canadians. Comparing 1980 with 2000, recent male immigrants[179] working full time, full year witnessed a 7-percent decline in their earnings,[180] compared with a 7-percent increase for comparable Canadian-born men (Frennette and Morissette 2003).

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[176] An unattached individual is defined as a person living alone or with others to whom he or she is unrelated (e.g. a lodger).
[177] In fact, the majority of the reduction in low-income rates that occurred for senior Canadians happened in the 1980s.
[178] Statistics Canada's CD-ROM *Income Trends in Canada* does not separate data by immigration status or origin of birth.
[179] A recent immigrant is defined as someone who has arrived in Canada within the last five years.

One consequence of this declining earnings record is that the (long-term) low-income rate for recent immigrants is on an upward trend. A recent study (Picot and Hou 2003) using Census data reveals that the low-income rate[181] among recent immigrants[182] rose significantly between 1980 to 1990 (from 24.6 percent to 31.3 percent) and 1990 to 2000 (to 35.8 percent). A consensus on the cause or causes of these poor income rates among recent immigrants has not been reached. Some potential factors have been ruled out, including a change in the educational attainment of immigrants over time, the general labour market conditions over the last 20 years and differences in the ages of recent immigrants (compared to native-born Canadians). Statistics Canada notes that "compared to earlier cohorts, recent immigrant cohorts will — at least in the near future — be more likely to have difficulty making ends meet and will also be more financially vulnerable to shocks such as job loss or unexpected expenditures" (Frennette and Morissette 2003, 16).

Another Statistics Canada publication notes that the difficulties encountered by recent immigrants between 1991 and 1996 were similar to the problems facing young native-born Canadians, a group that is comparable in the respect that they also have relatively little Canadian work experience. In addition to this problem, recent immigrants also face other unique challenges, including a lack of fluency in one of the two official languages (see Chapter 4) and problems with their foreign credentials being recognized.[183] This is corroborated by the Longitudinal Survey of Immigrants to Canada, which reveals that these three factors were the most serious difficulties encountered by immigrants when entering the labour force in 2001 (Statistics Canada 2003b). This survey also revealed that:

> Some six months after their arrival, 26 percent (or 32,300) of immigrants who had professional credentials had at least one of their qualifications verified by an employer, an educational institution or the governing body of their profession within Canada. Another 13 percent had credentials checked by other sources outside Canada or by immigration officers, while 61 percent had not had any of their credentials validated (Statistics Canada 2003b, 35).

These problems were especially true among immigrants originating from countries with education systems substantially different than Canada. Finally, while difficult to measure, the role of discrimination against immigrants (who are increasingly members of a visible minority) may be another potential contributing factor in their recent poor performance (see Chapter 3).

Research opportunities

More research may be justified for another demographic group, "married couples with other relatives," who accounted for 12 percent of non-elderly families in 2001. This group was not analyzed in this report due to its diversity (and limitations in the data available). For example, it is not possible to isolate trends for the "sandwich" generation families (with both children and senior parents living in the home) versus trends occurring for Canadian immigrants (who are more likely to have extended households).

Further research into the circumstances of other groups of Canadians with lower than average incomes would also be useful. Lone-parents represent one such group, as well as Aboriginal people. Similarly, the reasons for the poor income performance of new entrants to the labour market (recent immigrants and young Canadians) could be further explored.

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[180] Earnings included wages and salaries and self-employment income.

[181] Low-income figures presented are 1992 base (after government transfers, before income taxes). Before-tax low income cut-offs (LICOs) were used because the Census only reports before-tax income data. Hence, direct comparisons to other LICO figures presented in this chapter (based on after-tax LICOs) are not possible.

[182] The same definition of recent immigrant applied in this study: an immigrant being in Canada for less than five years.

[183] Statistics Canada. 2001 *Census — Shaping the nation's workforce: Immigrants, demand for skills and an aging population.* Available at **www12.statcan.ca/english/census01/products/analytic/companion/paid/canada.cfm**

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Picot, Garnett, and Feng Hou. 2003. *The Rise in Low-Income Rates Among Immigrants in Canada*, Statistics Canada Cat. No. 11F0019MIE, No. 198 (June 2003).

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CHAPTER

Consumer Assets

Summary

The assets of Canadian families have increased over the 1984 to 1999 period, primarily due to gains experienced by wealthier family units. Canadians' homes continue to be their most valuable asset. Some evidence suggests that, as a whole, Canadian renters are in a precarious financial situation. The fastest growing financial asset held by Canadian families over the past two decades has been Registered Retirement Savings Plans (RRSPs), due to the rapid increase in their ownership and in overall contributions. This trend involves diverse types of investment vehicles, including mutual funds.

The expansion of investment vehicles has raised many consumer issues, such as the complexity and disclosure of financial information and the added risks associated with equity-based investments. **Research opportunities** include the need to know more about the financial situation of homeowners who are using financing options that "withdraw" money from their homes. More detailed analysis of the financial situation of renters would also be useful, given how much they lag homeowners in asset accumulation. Finally, research should continue to investigate potential solutions to, and impacts of, the mismatch between consumers' literacy level and the complex information associated with many financial instruments.

Chapter Six
Consumer Assets

Income is only a partial indicator of the ability of consumers to participate in the marketplace. For example, an elderly individual may have a relatively low income, but live quite comfortably in retirement by drawing on an accumulation of assets; or a temporarily under-employed person may supplement his or her current income by taking on additional debt. On the other hand, persons with very high incomes may experience severe financial stress if they are also servicing large debts. Thus, wealth (or net worth) provides some additional insight into the financial situation of Canadians. The next three chapters examine broad trends in assets, debts, and net worth, during the period from 1984 to 1999, as well as the financial position of some key demographic groups of consumers.

It is recognized that, beyond income, assets also play an important role in consumers' well-being:

> We know intuitively that savings and assets are as important to our overall financial and economic security as income. Anyone who has ever applied for a mortgage, sought the advice of a financial planner, or applied for social assistance benefits knows first-hand that any savings, however modest, can be an important economic resource. ... Assets can also enhance social capital, participation, and inclusion. For example, homeowners appear to have higher levels of civic engagement than do non-owners and enjoy better marital stability, family health, and well-being among dependent children (Nares and Robson-Haddow 2003, 51).

Assets can be categorized in two main groups: **non-financial assets** (principal residences, vehicles, etc.) and **financial assets** (deposits in financial institutions, RRSPs, etc.). In total, the aggregate amount of assets held by Canadians increased, in real terms, from $1.4 trillion in 1984 to $2.6 trillion in 1999. Part of this increase is attributed to a larger population: the number of family units in Canada increased from 9.5 million in 1984 to 12.2 million in 1999.[184] However, a growing population accounts for only part of the increasing value of assets. Comparing 1984 to 1999, the median value of assets of Canadian family units increased from $92 722 to $124 500 (see Figure 6.1).

The Survey of Financial Security: analytical implications

Cross-section data (1999 data) presented in this chapter are from Statistics Canada's 1999 Survey of Financial Security (SFS). Time-series data (comparing 1999 data to Statistics Canada's previous wealth survey of 1984) are mainly from a custom data request performed by Statistics Canada. A few points are worth noting about these data. Unless otherwise stated, the time-series comparisons represent trends based solely on these two survey years. Also, because of differences in survey content, these time-series comparisons are based on adjusted 1999 data, i.e., certain assets are removed from the 1999 data because comparable information does not exist for 1984. Finally, these time-series comparisons are reported in constant 1999 dollars, i.e., the impact of inflation is removed. (See the Appendix for more details on the SFS.)

Similar to Statistics Canada's main publication on net worth (Cat. No. 13-595), this chapter focusses on median, as opposed to average, values. Unlike average values, the median is not influenced by a skewed distribution of net worth (due to the extremely high net worth of a relatively very few Canadians). Median values, therefore, give a closer approximation of the "typical" Canadian household.

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[184] Note that some household growth is simply the result of household divisions (e.g., a divorce), which would not affect the aggregate amount of Canadian assets. However, other new households, such as those of recently arrived immigrants, would add to the stock of assets.

FIGURE 6.1

Median Asset Holdings: 1984 versus 1999,* All Family Units
(Medians Based on Those Reporting Ownership, in $1999)**

	1984		1999	
	Median ($)	% Reporting	Median ($)	% Reporting
Financial Assets	8 704	94	15 000	96
RRSPs/Locked-In Retirement Accounts	9 459	29	20 000	57
Deposits in Financial Institutions (Non-RRSPs)	4 368	92	2 670	91
Mutual Funds/Stocks/Bonds (Non-RRSPs)	5 235	36	7 500	31
Other Financial Assets (Non-RRSPs)	6 897	12	5 000	16
Non-Financial Assets	83 526	87	112 000	87
Home	91 956	60	125 000	62
Other Real Estate	45 978	19	65 000	17
Vehicles	7 663	80	9 000	80
Other Non-Financial Assets	4 598	2	5 000	1
Equity in Business	61 304	15	10 000	19
Total Assets	**92 722**	**100**	**124 500**	**100**
Number of Family Units (Millions)	9.50		12.22	

Note: Unlike average values, median values are non-additive, i.e., the sum of the individual categories does not equal the total.

*1999 data are adjusted to be made comparable to 1984 data.

**All family units include both economic families and unattached individuals.

Source: Statistics Canada, SFS, custom tabulations.

The largest asset held by Canadians is their home

The largest asset held by Canadians, on average, is their principal residence, which accounted for slightly over $1.1 trillion in assets in 1999, or 42.3 percent of all assets. This compares to roughly $605.2 billion in housing assets in 1984, which also represented 42.3 percent of all assets (Statistics Canada 2001a, 22).[185] The percentage of Canadian family units that were homeowners increased over this 15-year period, from 60 percent in 1984 to 62 percent in 1999. During the same period, the median value of Canadians' principal residence (based on those reporting ownership) increased from $91 956 to $125 000.

According to a recent research article (Tal 2003), housing prices rose 16 percent (in real terms) between 1998 and mid-2003. Taking advantage of this added housing equity and low mortgage rates, Canadian households have been withdrawing money from their homes at an unprecedented rate. *CIBC World Markets* estimates that

Employer pension plan benefits

This section on assets is based on Statistics Canada's first release of data for the SFS and on custom tabulations. It is worth noting that one important asset is excluded: the value of employer pension plan (EPP) benefits, excluded from the analysis comparing 1984 to 1999 because information about EPP benefits does not exist for 1984. In 1999, EPP benefits represented the most valuable source of private pension benefits. Canadians held $604 billion in EPPs in 1999, compared to $421 billion in other private pension benefits (primarily RRSPs and RRIFs [Registered Retirement Income Funds]) (Statistics Canada 2001b, 10).

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[185] Also, Statistics Canada, SFS, custom tabulations.

between 2001 and mid-2003, cash-out mortgage refinancing added $12 billion to the pockets of homeowners, while home equity loans added a further $10 billion over this same period (Tal 2003). *CIBC World Markets* notes that this extra cash can be a positive development for consumers if it is used as a means to swap relatively expensive unsecured debt with a cheaper (secured) alternative. It appears, however, that "a larger proportion of the cash borrowed against home equity is used for increased spending" (Tal 2003, 2), rather than for paying off debt.

Many consumers who do not own a home have very weak balance sheets. According to unadjusted 1999 SFS data, the ownership of a principal residence is strongly correlated with net wealth.[186] Renters accounted for 39.6 percent of all family units in 1999 and their median net worth was just $8000 (Kerstetter 2003, 37). This compares to a median net worth of $111 807 for families who were homeowners with a mortgage and $259 200 for those who were homeowners without a mortgage (Kerstetter 2003).

The much weaker balance sheet of renters is apparent when examining public opinion research data on house buying intentions. A 2003 poll reveals that a majority (62 percent) of Canadians who were renters said they were not likely to buy a home within the next two years. When this group was asked why they did not plan to buy within this time, the most common responses related to financial constraints: 37 percent cited "can't afford to buy a home," 11 percent cited "not enough disposable income," 9 percent cited "personal financial concerns," 5 percent cited "can't afford a mortgage" and 3 percent cited "don't have the down payment" (RBC Financial Group 2003).

Other data also confirm the financial stress that many Canadian renters face. For example, a 2001 report notes that the median household income of renters[187] in 1999 was $20 947, less than half that of homeowners ($43 478) (Hulchanski 2001, 5). The same source notes that, after adjusting for inflation, the median income of homeowners grew by 5 percent compared to 1984 (from $41 380), but the median income of renters fell by 3 percent (from $21 554). During this same period, the CPI component for rented accommodation increased at an average annual rate of 2.7 percent, compared to only 2.2 percent growth for owned accommodation.[188] Perhaps not surprisingly then, the 1999 SFS reveals that 24 percent of families that rent reported falling behind at least two months or more on a bill, loan, rent or mortgage payment in 1998. This was almost double the rate for families that owned a home with a mortgage (13.6 percent) and over four times greater than the rate for families that owned a mortgage-free home (5.7 percent) (Pyper 2002, 19). Taken together, this information implies that besides having very little equity, many Canadians who do not own a home face significant challenges with their basic finances.

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[186] Data in this paragraph were obtained from the Canadian Centre for Policy Alternatives, from which only 1999 (unadjusted) data are available.

[187] Differences in household income between renters and owners may be influenced by a number of factors, including household size and number of earners. According to Statistics Canada Catalogue 62-202, for example, the average household size for renters was 2.04 in 2001, compared to 2.83 for owners.

[188] Source: Statistics Canada, CANSIM, series v737422 and v737426.

As noted by a researcher in urban and community studies, the resulting dynamics in the market for shelter are rather polarized:

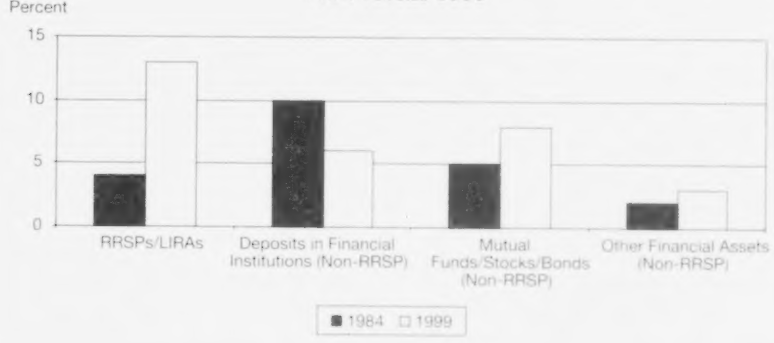
> Owners and potential owners (higher income and upwardly mobile renters) have the ability to outbid renters for residential land (that is, building sites). In order to compete with condominium developers for land, rental housing developers would have to set rents too high for most tenants. A thriving supply/demand market exists in the homeowner sector, but only demand and social need — without new supply — exists in the rental sector (Hulchanski 2001, 3).

Increasingly varied types of financial accounts

The SFS data in this chapter classify financial assets into four categories: registered plans (includes RRSPs and locked-in retirement accounts) and three non-registered types of accounts (deposits in financial institutions; mutual funds, stocks and bonds;[189] and other financial assets). Combined, Canadians had $781 billion in financial assets in 1999,[190] accounting for 29.9 percent of all assets.[191] This compares to $301.5 billion in financial assets in 1984, which represented 21.1 percent of all assets (see Figure 6.2).

FIGURE 6.2

Selected Financial Assets as a Proportion of Total Assets, 1984 versus 1999*



*1999 data are adjusted to be made comparable to 1984 data.

Source: Statistics Canada, SFS, custom tabulations, and Statistics Canada 13-595, p. 22, May 2001.

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[189] Mutual funds, stocks and bonds are presented as three separate categories in Statistics Canada's main publication (Catalogue 13-595). However, due to small sample sizes in 1984 (when split by age and family type), these items had to be collapsed into a single category.

[190] To make this figure comparable to 1984, the value of annuities was removed from other financial assets.

[191] Percentage calculated using a 1999 figure for total assets that has been adjusted to make it comparable to 1984 data. This adjustment was quite small and did not affect the proportion.

The introduction of low-cost bank accounts in Canada

According to the SFS, almost 1 in 10 Canadian families did not report ownership[192] of deposits at a financial institution in 1999. In February 2001, the federal government and eight Canadian financial institutions agreed to help ensure that consumers have access to affordable banking services. The financial institutions agreed to offer accounts that meet guidelines set out by the federal government. Some of the more important of these guidelines are: no charges for making deposits; the customer has use of a debit card; the customer has cheque-writing privileges; 8 to 15 debit transactions are allowed per month, including at least two that can be done in a branch; and a maximum monthly fee of $4. The Department of Finance notes: "The features of these accounts…reflect the views of consumer groups on the desired attributes of low-cost accounts" (Department of Finance Canada 2001), a positive development for some low-income consumers who otherwise may not have access to mainstream financial services.

Source: Financial Consumer Agency of Canada 2003.

A brief history of RRSPs

The federal government introduced RRSPs in 1957 to encourage Canadians to save for retirement. Before RRSPs, only individuals who belonged to employer-sponsored registered pension plans could deduct pension contributions from their taxable income. Several legislative changes have occurred over the decades that have encouraged larger RRSP contributions (including extensive amendments to RRSPs effective January 1, 1991). For example, the maximum RRSP contribution limit in 1986 was the lesser of 20 percent of income or $7500.[198] In 1991, the deduction limit was increased to $11 500 and is currently projected to reach $15 500 by 2005, after which it will be indexed (to changes in average wages and salaries).

Source: Frenken 2003, 83-84.

Basic savings

There was little change in the proportion of Canadians who reported having basic savings (deposits in financial institutions), when comparing 1984 to 1999: slightly more than 90 percent claimed ownership of this financial instrument in each year. But, while ownership levels remained about the same during this period, the median deposit held in a financial institution markedly declined, from $4368 in 1984 to $2670 in 1999 (see Figure 6.1).[193]

RRSPs and other investments

The declining use of non-registered deposits in financial institutions is likely due in part to the increasing popularity of other savings and investment instruments. In particular, the strong growth in RRSP ownership rates and contributions has been, by far, the most significant change in the asset profile of consumers over the past two decades. The percentage of Canadians with RRSPs almost doubled between 1984 and 1999 (from 29 percent ownership to 57 percent ownership) and the median amount held increased from $9459 to $20 000 (see Figure 6.1).[194] On the other hand, the percentage of Canadians with non-RRSP investments (mutual funds, stocks and bonds) fell from 36 percent in 1984 to 31 percent in 1999, but the median amount held increased from $5235 to $7500.[195]

There are several potential reasons for the strong growth in RRSPs. The lower return from keeping money in a basic savings or chequing account likely prompted the shift towards RRSPs, as interest rates[196] fell from more than 10 percent in May 1984 to less than 5 percent between May and July of 1999.[197] Other factors contributing to the rising ownership and contribution rates of RRSPs include the aging of the population, the increased participation of women in the labour force, several legislative changes that occurred between 1984 and 1999, and the annual advertising campaigns by financial institutions.

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[192] Note that it is possible that some individuals had a bank account with absolutely no money in it at the time the survey was conducted. However, it is assumed that this case would be the exception, and that not reporting ownership of any assets in a bank account is a reasonable proxy for individuals without a bank account.

[193] The median is based only on those persons reporting ownership of a deposit in a financial institution (i.e. null values are excluded).

[194] The median is based only on those persons reporting ownership of an RRSP (i.e. null values are excluded).

[195] The median is based only on those persons reporting ownership of non-RRSP investments (i.e. null values are excluded).

[196] Or, more specifically, the Bank of Canada's bank rate.

[197] The 1984 wealth survey was conducted in May, 1984, and data collection for the 1999 wealth survey was between May and July of 1999.

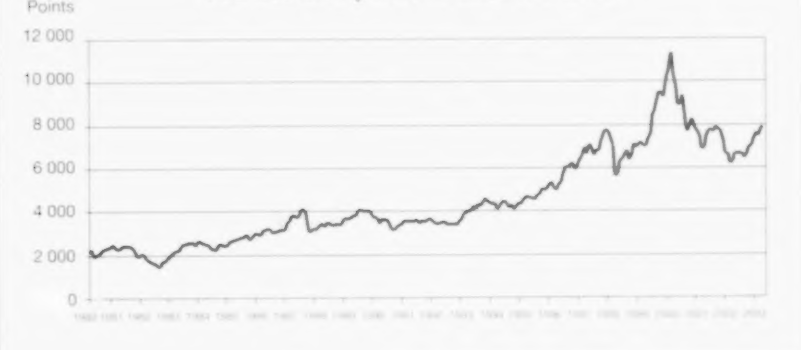
[198] This limit was the ceiling for non-participants in employer-sponsored registered pension plans (RPPs). The ceiling for RPP participants was the lesser of 20 percent of income or $3500 minus the employee's contribution to the RPP.

RRSPs offer many potential advantages to consumers. Consumers can increase their current disposable income, via a tax rebate, by contributing to an RRSP. In addition, RRSPs offer the advantage of delaying tax payments, and can also lower the real value of these payments outright (assuming a person is in a lower tax bracket at the time he or she withdraws funds, which is often the case). They can be used towards the purchase of a home under the Home Buyers' Plan. And they also offer consumers the potential benefit of portfolio diversification, since there is not a perfect correlation between different classes of investments over the business cycle. For example, in an economic downturn, one would generally expect interest rates and many stock prices to fall and bond prices to increase (as interest rates fall). Furthermore, mutual funds (an important component of many RRSPs) are often diversified by their very nature, containing various types of securities from many different issuers. Thus, the increasing use of mutual funds as a savings vehicle may insulate their owners from fluctuations in the market to some extent.

The growing popularity of RRSPs and the declining importance of savings held in basic savings accounts have many important implications for a consumer's finances, however. For example, RRSPs may add an element of risk to a consumer's finances, since some RRSPs are more variable than other more traditional savings accounts (e.g. deposits in financial institutions, which, within certain limits, benefit from Canada Deposit Insurance Corporation protection). While low-risk RRSPs exist (e.g. guaranteed investment certificates), those tied to equity markets can be much more volatile. For instance, between August and November 2000, the TSE 300 composite dropped by nearly 2500 points, losing slightly over 20 percent of its value in just three months (see Figure 6.3).

FIGURE 6.3

TSE 300 Composite Index, 1980–2003



Note: Last data point is November 2003.

Source: Statistics Canada, CANSIM, series v122620.

RRSPs, not a good choice for everyone?

In a recent study, the C. D. Howe Institute concluded that RRSPs are not an ideal savings instrument for all Canadians, especially those nearing retirement who will qualify for the guaranteed income supplement. The report concludes:

> Little or no informed financial advice specific for lower-income Canadians exists, so they tend to accept the same advice widely publicized for the general population: that RRSPs are the most effective vehicle for saving for a retirement. Overall, the effect of the present system is to largely offset, through increased taxes and loss of benefits, the additional income that lower-income Canadians can generate from their retirement savings through RRSPs and pensions. Awareness of the ineffectiveness of saving for lower-income Canadians is limited to experts inside government and in the financial and research community. Not only is the advice in the mass media inappropriate for lower-income Canadians; it is often wrong (Shillington 2003, 7).

However, this result must be considered in context: the 1990s, in general, had an unprecedented bullish market, with the TSE 300 composite closing at 8414 points, more than twice as high as where it began the decade (3704). The above data illustrate the potential gains and losses that can be incurred when investing in equity-based instruments. While consumers who invest for the long term are partially shielded from a short-term market downturn, others who require funds in the immediate future (e.g. those wanting to take advantage of the Home Buyers' Plan, or those close to retirement) may be significantly harmed by a volatile stock market.

Financial information is becoming more and more complex

Another consumer issue regarding certain financial instruments, such as mutual funds, is their associated disclosure documents. As mentioned in Chapter 4, evidence suggests that many consumers lack basic numeracy and literacy skills. For example, 22 percent of adult Canadians have serious problems dealing with *any* printed materials and an additional 24 percent can only deal with simple reading tasks (Statistics Canada 1996). Most mutual funds come with very lengthy disclosure documents, and even for consumers with sufficient literacy skills:

> ...observations that are frequently made about [mutual fund] disclosure are that: (1) there is too much paper; (2) people feel overwhelmed by the paper; (3) people do not want all the paper/information; and (4) people will not read the material that is provided to them (Stromberg 1998, 87).

Furthermore, the level of consumer choice in the mutual fund industry has grown substantially in the last decade. The number of mutual funds under management in Canada has almost quadrupled, increasing from 505 in 1991 to 1956 in 2002 (Investment Funds Institute of Canada 2003). While this growing supply of products offers consumers increased choice, the amount of information that must be processed is truly enormous.

It is not just the sheer volume of information available that leads to problems for some consumers. There is also the degree of complexity of this financial information.[199] In the growing field of mutual funds, there is no standard against which to evaluate the performance of competing funds. Thus, making comparisons between funds that use different methods to evaluate performance is very complicated. Public opinion research suggests that consumers themselves feel they have relatively little investment knowledge. A 2002 survey showed that only 8 percent of those polled considered themselves to have "sophisticated" investment knowledge, compared to 44 percent who responded "average," 36 percent who responded "limited" and 11 percent who said they had no investment knowledge at all (RBC Financial Group 2003). Other public opinion survey questions that tested Canadians on their investment knowledge echoed these findings. When asked whether the Canada Deposit Insurance Corporation insures mutual funds for up to $60 000, 33 percent of respondents believed that it did and a further 43 percent said that they didn't know. Only about a quarter (24 percent) of those surveyed knew this was not true.[200] With such a widespread lack of knowledge:

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[199] A Canadian study found that mutual fund prospectuses require a college/university degree to be comprehensible and were generally found to be "very difficult" to read. See Colbert, Carty and Beam 1998.

> People are vulnerable to being sold a 'get rich quick' scheme without truly understanding what they have bought, its suitability for their needs, or the 'fine print' that negatively impacts them. People often spend more time comparison shopping for a television set or planning their vacation than they do planning and managing their affairs to meet their current and future financial needs… (Stromberg 1998, 38).

It has been further reported that some consumers find it difficult to distinguish between when they are being given independent financial advice and when they are being sold a product, that is, when the "advisor" is really a seller with a substantial financial interest in the outcome of the transaction (Stromberg 1998, 7). Consumers are also generally not aware of the fees, charges and expenses they pay when investing in mutual funds (Stromberg 1998, 106). So, it is perhaps not surprising that 88 percent of Canadians polled reported that it was "somewhat difficult" or "very difficult" to understand their options as consumers when making decisions about investment products such as mutual funds and RRSPs.[201]

Research opportunities

There has been a considerable increase in the amount of money being "withdrawn" from Canadian homes (in the form of home equity loans and refinancing). Currently, little is known about the financial situation of homeowners using these options and about what this money is being used for. Given that a home is the single biggest investment for many Canadians and that a mortgage-free home can be an important part of a retirement plan, more research would be beneficial. Further, given how much they lag homeowners in the process of asset accumulation, more detailed analysis of the wealth of renters would also be useful. As recently noted by two researchers on poverty issues: "Just as income support policy has a heritage of robust debate and research, so too can the asset-building field benefit from more debate and research within Canada and abroad" (Nares and Robson-Haddow 2003, 53). Finally, research should continue to investigate potential solutions to, and impacts of, the mismatch between consumers' literacy level and the complex information associated to many financial instruments.

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[200] Question commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey (2002, first quarter).

[201] Ibid.

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CHAPTER

Consumer Debt

Summary

7.1 General Trends in Debt

While the proportion of Canadians carrying some form of debt remained unchanged when comparing 1984 with 1999 (70 percent), the median outstanding debt of family units more than doubled, from $12 567 to $29 000. Secured debt (primarily mortgages) played an important role in this growth. The use of many forms of unsecured debt also rose rapidly over this period, including personal lines of credit, credit card debt and student loan debt. Other evidence points towards the increasing use of alternative financial services, such as short-term payday loans. While some consumers appear to be taking advantage of current low interest rates, others seem to be using relatively expensive forms of credit in the day-to-day management of their finances. **Research opportunities** include the need for a better understanding of the financial situation and debt management practices of new homebuyers, in light of the high media attention given to historically low interest rates. Given the general level of consumer indebtedness, research could also investigate Canadians' vulnerability to interest rate fluctuations, as well as further explore indicators that could assist in defining overindebtedness. Finally, research should also be geared towards assessing the financial choices of poor Canadians, including what constraints and factors influence their decision making.

7.2 Trends in Consumer Bankruptcies

Compared to the 1980s, there was a very significant (and largely unexplained) increase in consumer bankruptcies in the 1990s. An examination of data over the last 20 years reveals that consumer bankruptcies are both cyclical and on a long-run upward trend. In fact, there were more than two-and-a-half times as many consumer bankruptcies in the 1990s than during the previous decade. While existing consumer bankruptcy research cannot explain this rapid increase, there does appear to be a consensus regarding some contributing factors: in addition to their very weak financial balance sheets, consumers who declare bankruptcy are more likely to be unemployed (or under-employed) and have significant access to credit. **Research opportunities** include further examination of the variables that appear to affect consumer bankruptcies, such as the expansion of consumer credit and the dissolution of family units.

Chapter Seven
Consumer Debt

Analyzing trends in debt is important for a number of reasons. Debt has a substantial impact on the balance sheet of households. Public opinion data suggest that many Canadians experience anxiety about their debts, and that paying them off is a priority for many consumers. For example, a 2003 national poll revealed that slightly less than a third of Canadians are concerned about being able to manage their current level of indebtedness,[202] and another 2003 poll indicated that more than three quarters (77 percent) of Canadians feel that "paying down debt, such as a mortgage or other loans" is a very important financial goal.[203]

This chapter examines general trends in consumer debt. The use of credit cards is briefly examined, as are alternative sources of consumer financing. Finally, trends in consumer bankruptcy are presented.

7.1 General Trends in Debt

Consumers are carrying more debt

Data from the Survey of Financial Security (SFS)[204] reveal that, when comparing 1984 to 1999, the percentage of Canadian family units with debt remained unchanged at 70 percent (see Figure 7.1). However, the aggregate amount of debt slightly more than doubled in real terms over this time, increasing from $207 billion to $458 billion. Therefore, the median debt of family units increased from $12 567 to $29 000.[205]

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[202] Debt was defined as credit card balances, lines of credit, loans and mortgage payments. Source: Ipsos-Reid 2003a.

[203] On a list of five financial goals, paying down debt was rated the most important. Source: Ipsos-Reid 2003b.

[204] See the text box at the beginning of Chapter 6 for a description of the Survey of Financial Security.

[205] For both 1984 and 1999, the median value presented is based only on those Canadians reporting debt, i.e., those who are debt-free are excluded from the calculation.

FIGURE 7.1

Median Debts: 1984 versus 1999, All Family Units*
(Medians Based on Those Reporting Ownership, $1999)

	1984		1999	
	Median ($)	% Reporting	Median ($)	% Reporting
Mortgages	42 372	31	69 000	36
Principal Residence	38 315	30	67 000	34
Other Real Estate	22 989	7	60 000	5
Credit Card and Instalment Debt	766	46	1 800	40
Student Loans	3 372	5	7 280	12
Other Debt**	6 437	40	8 200	43
Total Debt	**12 567**	70	**29 000**	70
Number of Family Units (Millions)	**9.50**		**12.22**	

Note: No adjustments are made to 1999 data as all components are comparable to 1984 data. Furthermore, unlike average values, median values are non-additive, i.e., the sum of the individual categories does not equal the total.

*All family units include both economic families and unattached individuals.

**Other debt includes vehicle loans, lines of credit, and other amounts owing on loans from financial institutions, unpaid bills, etc. For comparison purposes, these components were aggregated for the 1999 data, to reflect the format of the data available for 1984.

Source: Statistics Canada, SFS, custom tabulations.

By itself, debt does not provide a general indication of either financial stress or the ability to manage financial affairs. Other statistics, however, indicate that consumers are more leveraged than they have ever been. For example, the debt-to-asset ratio increased from 14.4 percent in 1984 to 17.6 percent in 1999. Also, recall from Chapter 1 that the debt-to-income ratio increased from 73.8 percent in the first quarter of 1989 to 103.2 percent in the last quarter of 2003 and that the savings rate declined from 14.1 percent to 1.3 percent over this period. According to a 2004 report, the level of debt taken on by some Canadians is worrisome:

> …rising home valuations, and more recently higher stock prices, are boosting household net worth, thereby helping to insulate borrowers from the ongoing rise in indebtedness. Nevertheless, alternative measures of savings and liquidity have continued to weaken, suggesting that the financial cushion supporting households is probably inadequate to protect against a sustained rise in interest rates or a severe correction in the housing market (Scotiabank 2004).

What is implied by the concept of overindebtedness?

As the issue of consumer overindebtedness receives growing attention in Canada and other developed economies, the number of ways of measuring it has multiplied: total debt as a percentage of income, consumer credit as a percentage of consumer durables, debt as a percentage of total assets, etc. Research on this subject has concluded that "there was no generally accepted definition of overindebtedness and inadequate information on which to base one" (U.K. Task Force on Tackling Overindebtedness, 2003, 12). On the basis of research carried out for the U.K. Department of Trade and Industry, a set of general indicators has been proposed to represent, at a minimum, a reasonable guideline for raising concerns about a household's risk of getting into financial difficulties:

- having four or more current credit commitments;
- spending more than 25 percent of gross income on consumer credit;
- spending more than 50 percent of gross income on consumer credit and mortgages (U.K. Task Force on Tackling Overindebtedness, 2003).

Overindebtedness is a multi-faceted issue. A single set of indicators is not likely to be sufficient to assist in fully delineating and understanding it, so more research is required. For example, the interplay of consumer overindebtedness and the practices, role and interests of the credit-granting industry should be considered, given that "A candid definition of the problem requires recognition that, in the absence of more of a social safety net, the only way to reduce overindebtedness is for individuals to save more and borrow less, which would mean reduced volume for the consumer credit industry and reduced consumption, with attendant ripple effects in the economy" (Braucher 1999, 160).

When discussing debt, most analysts make a clear distinction between secured mortgages and unsecured debts, such as credit card and instalment debt. While mortgage debt is much more significant in absolute terms (it accounted for approximately three quarters of total outstanding debt in 1984 and in 1999), it is backed by an asset that tends to appreciate over time. Most forms of unsecured debt are not backed by such an asset (or are backed by ones that depreciate over time), and so, these forms of credit often represent "pure" debt.

Secured debt: mortgages

Not surprisingly, in 1984 and in 1999, mortgages by far represented the largest median debt of family units ($38 315 and $67 000 respectively). The increase in mortgage debt is not in itself a troubling issue, however, since housing equity also increased at the same time. For example, the net total outstanding equity (the value of all principal residences minus the amounts owed on them) in Canada was approximately $800 billion in 1999 (or $65 453 per Canadian family unit), compared to $483 billion (or $50 846 per Canadian family unit[206]) in 1984 (see Figure 7.2). However, as we shall see, for some consumers meeting mortgage payments can be a significant issue.

FIGURE 7.2

Aggregate Data on Principal Residence: 1984 and 1999 in $ Millions, 1999 Dollars

	1984	1999	Annual Growth
Value of Home	605 194	1 103 740	4.1%
Outstanding Mortgage	122 155	303 901	6.3%
Total Equity	483 039	799 839	3.4%
Number of Family Units (Millions)	**9.50**	**12.22**	**1.7%**

Note: No adjustments are made to 1999 data as they are directly comparable to 1984 data.

Source: Statistics Canada, SFS, custom tabulations.

Several factors identified in earlier chapters have created positive circumstances for buying a home in Canada over the last decade, such as low interest rates (see Chapter 1) and strong income growth (see Chapter 5). As well, some legislative changes and private market practices were introduced during this period that have encouraged some people to take on more debt than was once possible when buying a home. For example, the Government of Canada introduced the First Home Loan Insurance Program in 1992, which reduced the minimum down payment on a home (subject to certain conditions) from 10 percent to 5 percent for first-time home buyers (Parliament of Canada 1995, 4). In 1998, this program was made permanent and the 5 percent down payment threshold was expanded to include all home buyers. According to the Canada Mortgage and Housing

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[206] This figure represents the average net equity for all Canadian family units (based on Figure 7.2). Therefore, it cannot be directly compared to information in Figure 7.1, which is based on median values per reporting household.

Corporation, 70 percent of first-time home buyers between 1992 and 1997 would have been unable to purchase their home without the 5 percent down payment option (CMHC 1998). Furthermore, many lenders have recently introduced products that effectively allow consumers to borrow against 100 percent of the value of a home.[207] This option was also made available by the CMHC in March 2004 (CMHC 2004).

Also in 1992, the federal government introduced the Home Buyers' Plan (HBP), which allows eligible first-time home buyers to withdraw up to $20 000 (or $40 000 for an eligible couple) from their Registered Retirement Savings Plans (RRSPs) to be used against a down payment and closing costs for a home. RRSPs withdrawn under this program must be paid back in equal instalments over a 15-year period. SFS data reveal that those taking advantage of this program are mainly middle-income and lower-middle income family units. While family units in the top income quintile are the most likely to have ever owned an RRSP, family units in the middle income quintile and second lowest quintile are the most likely to report ever withdrawing an RRSP under the HBP (11.2 percent and 8.5 percent, respectively).[208] However, a Statistics Canada report notes that:

> The effect of this program [HBP] on the housing market is virtually impossible to determine. No doubt, many participants would have otherwise been unable to purchase a home. Others may have had sufficient resources, but decided to increase their down payment and reduce their outstanding mortgages (Frenken 1998, 38).

Some evidence suggests that homeowners are increasingly likely to experience financial difficulties. Statistics Canada reports that, in 1995, 78 000 (of 229 000) Canadians obligated to make repayments to their RRSP under the HBP failed to do so, with the majority of these people (76 000) making no repayment at all.[209] The implications for these consumers are serious: they incur an immediate tax liability, at their current tax rate, and they lose that non-recovered RRSP as a future source of retirement income.

Another example of certain financial difficulties that homeowners can face can be found in Hydro-Québec data. Hydro-Québec studies clients' payment patterns, along with whether they own or rent their homes. This information revealed a recent upward trend in the percentage of new client homeowners who have had their files downgraded.[210] This percentage of homeowners grew substantially between 2000 and 2002, increasing from 27 to 50 percent. Furthermore, considering all clients of Hydro-Québec (not only new clients), there has been an increase in the proportion of homeowners having files requiring action against

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[207] For example, see Canada NewsWire 2003 and CanEquity 2004.

[208] This compares with 4.3 percent and 6.8 percent for family units in the top and second highest income quintiles, respectively. Due to small sample sizes, data are suppressed for family units in the lowest income quintile. Source: Statistics Canada, SFS, custom tabulations.

[209] Also, preliminary data suggested a similar default rate for 1996 (Frenken 1998, 39).

[210] A new Hydro-Québec client (a new account set up within the past 12 months) is assigned a neutral rating. A downgraded file is a very broad measure that indicates a less than perfect payment history.

Unsecured credit: Key definitions

Aggregate data on unsecured debt presented in this chapter examine two forms — lines of credit and credit cards — as particular instances of the changing use of consumer credit. Data provided by Equifax Canada capture instalment loans (i.e. bank loans, finance company loans, automotive sales finance loans) and revolving loans (i.e. national credit cards, department store cards, other retail cards and other revolving credit). Equifax information includes both credit limits (i.e. credit made available by lenders) and credit used (reflecting outstanding balances, i.e., actual debt incurred by consumers).

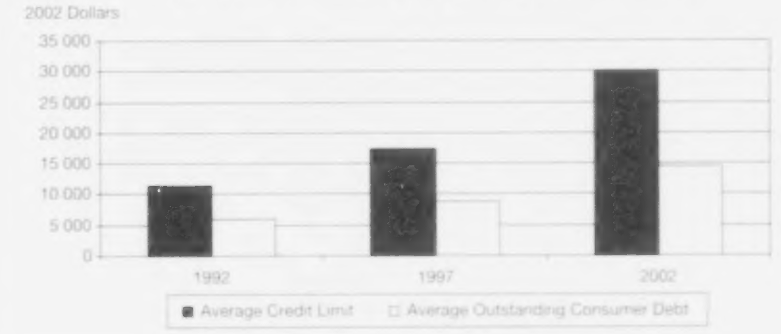
them (e.g. collections), an even more serious indication of poor payment performance. Also, homeowners (when compared to renters) accounted for only 11 percent of files requiring action in 2000. This almost doubled (to 21 percent) by 2002. Finally, Hydro-Québec data reveal that 4 percent of new client homeowners closed their accounts in 2000, and this proportion increased to 8 percent in 2002. This suggests that new client homeowners in Quebec may be increasingly returning to renting after a period as homeowners, or they are finding a way to make a profit by turning housing units over quickly.

Unsecured debt: consumer credit

Over the 1992 to 2002 period, average (real) outstanding consumer debt per adult Canadian grew at an average annual rate of 9.3 percent. As a broad comparison, national accounts data reveal that disposable income grew at an average annual rate of only 3.7 percent over this same period.[211] The (real) average credit limit per adult Canadian grew at an even faster rate of 10.2 percent (see Figure 7.3).

FIGURE 7.3

Average Credit Limit and Outstanding Consumer Debt* per Adult Canadian (18+), 1992, 1997 and 2002



* Excluding mortgages.

Source: Data obtained from Equifax Canada.

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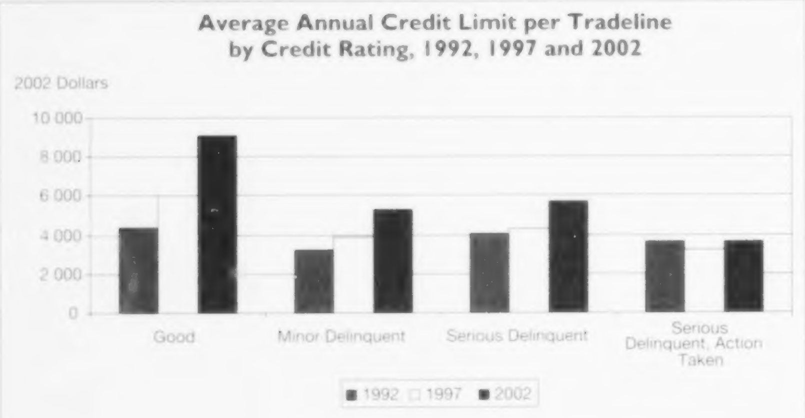
[211] Source: Statistics Canada, CANSIM series [illegible]

This 10-year period also shows interesting trends over the business cycle.[213] An analysis of the data reveals an overall improvement in the credit ratings of the range of financial products (included in Equifax reports) held by Canadians between 1992 and 2002. Comparing those two years, the proportion of financial products (called "tradelines" in the Equifax data) with a "good" credit rating (those for which the minimum required payment was made within 30 days of the due date) increased from 93.1 percent to 96.4 percent.[214] On the other hand, the proportion rated "minor delinquent" and "serious delinquent" fell, while those rated "serious delinquent; action taken" remained unchanged (at 1.4 percent).

More consumer credit is available

In part because there are more of them in absolute numbers and they represent a greater proportion of total tradelines, credit products with a "good" rating have grown the fastest in terms of the total credit available in Canada.[215] Another factor, however, is behind this trend: the (real) average credit limit per product (tradeline) has also increased, from $4384 in 1992 to $9114 in 2002 (see Figure 7.4). As for those products rated minor or serious delinquent, while they have declined in absolute numbers and now represent a smaller proportion of total tradelines than in 1992, the credit products in those categories are today, on average, carrying a higher credit limit. Finally, products with the worst rating have seen little change in their average credit limit.

FIGURE 7.4


Average Annual Credit Limit per Tradeline by Credit Rating, 1992, 1997 and 2002

Source: Data obtained from Equifax Canada.

Credit ratings explained

Data provided to the Office of Consumer Affairs (OCA) by Equifax Canada are based on a random sample of active tradelines (active in the past 12 months) in Equifax's database. Each financial obligation incurred by a consumer (e.g. a bank loan, a credit card transaction) is recorded as a separate tradeline. Each bit of credit history in an Equifax credit file is assigned a credit rating by the credit grantor.[212]

The unit of analysis is therefore the credit product (e.g. credit cards) and not individual consumers. It can be quite difficult to categorize consumers by a single credit rating, since it is possible for a person to have several credit products, each with different credit ratings. Consequently, while this level of analysis provides important insights about the growth in the availability and use of credit in Canada, and about how well or how poorly debts are being serviced, it cannot be easily interpreted to tell us how different consumers deal with their entire debt load.

OCA obtained tradeline data broken down by North American Standard Account Rating, and has grouped the data in the following categories, also used by Equifax:

"Good" credit ratings

"Minor Delinquent" credit ratings

"Serious Delinquent" credit ratings

"Serious Delinquent: Action Taken" credit ratings

See the Appendix for definitions of these credit ratings.

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[212] A credit rating (which is assigned to each tradeline) should not be confused with a credit score (which is based on a consumer's credit file). A credit score "is a numeric value assigned by credit grantors to indicate how likely someone is to pay back a loan or credit card according to the agreed repayment terms. It is an indicator of the level of risk that a borrower might represent. It is used as a predictor of future performance." Source: Equifax Canada 2003.

[213] Very generally, 1992 represents a good approximation of a business-cycle trough, 1997 is a good example of a year of transition (i.e. towards a recovery) and 2002 is an example of a year following sustained economic growth.

[214] These figures include credit that is too new to rate.

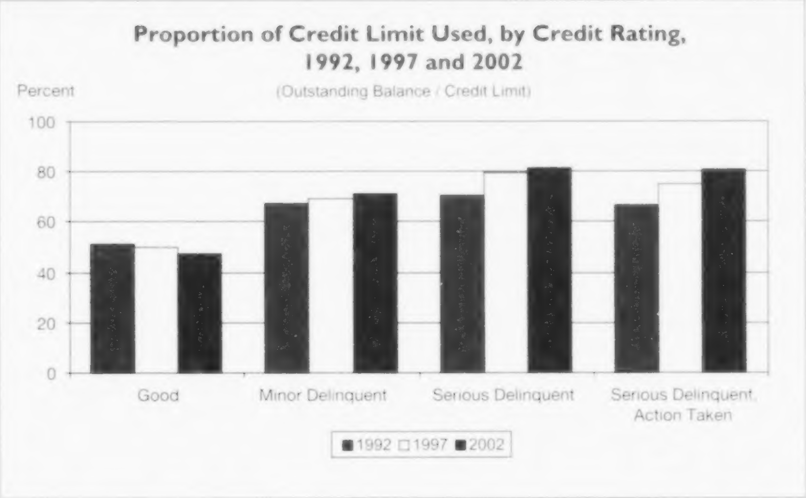
[215] Between 1992 and 2002, the total credit available (aggregate value of credit limits) in Canada is estimated to have grown (in real terms) by 12 percent for credit products with a good rating. This compares to -2 percent in the case of tradelines classified as "minor delinquent," -1 percent for serious delinquent and -4 percent for serious delinquent with action taken

A number of factors may be affecting the growth in the number of credit products and credit limits for tradelines with a good rating, and in the credit limits of some delinquent products. Anecdotal evidence from industry observers suggests that, as competition in all aspects of the financial services marketplace has increased over the last several years, lenders in general have been reaching out to borrowers with potentially higher credit risks. Another contributing factor may be that the level of lending sophistication has increased with greater access to and use of credit/financial behaviour data. From the consumer perspective, the additional financial flexibility may be welcomed to cushion against hard times — but for some this may imply a greater risk of accumulating more debt, resulting in more stress in managing their finances.

Use of credit has changed

In terms of consumers' behaviour with respect to debt, it is also interesting to complement information on credit limits with the actual use of credit. Comparing 1992 to 2002, the proportion of credit used (the aggregate outstanding balance divided by the aggregate credit limit) marginally declined for credit products with a "good" credit rating[216] (see Figure 7.5). Conversely, the proportion of credit used in all delinquent categories increased over the decade, with the greatest gains in the worst credit ratings. It is worth noting that some researchers have suggested a correlation between the increasingly easy availability of large amounts of credit with consumer bankruptcies (see Section 7.2, Trends in Consumer Bankruptcies).

FIGURE 7.5



Proportion of Credit Limit Used, by Credit Rating, 1992, 1997 and 2002

Source: Data obtained from Equifax Canada.

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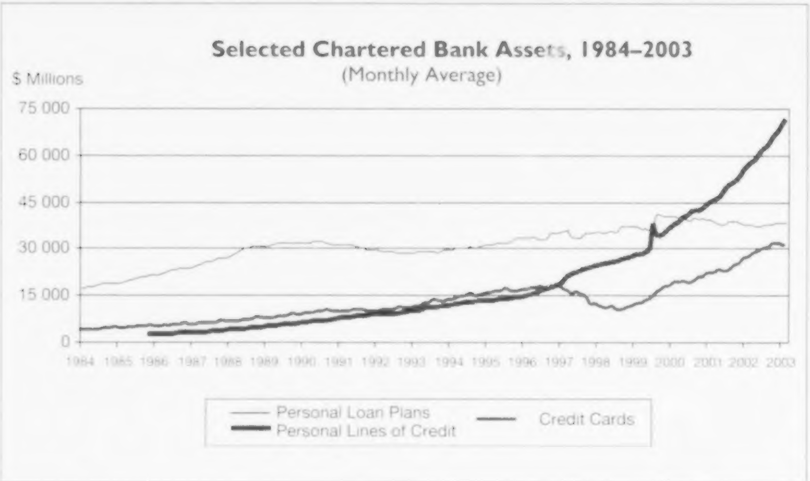
[216] Since the focus is on the proportion, the calculations are based on nominal balances.

The personal line of credit

An important trend that emerged over the 1990s is the increasing use of personal lines of credit by Canadian consumers. Public opinion data reveal that the percentage of adult Canadians who reported having a line of credit nearly tripled between 1993 and 2003, increasing from 16 percent to 43 percent (Millward Brown Goldfarb 2003, 7-17). Furthermore, Bank of Canada data show that since 1997 the growth in balances associated with personal lines of credit has far exceeded the growth of other types of credit products[217] (see Figure 7.6). This, among other factors, suggests that many consumers are taking advantage of the lower interest rates offered on this form of credit.

FIGURE 7.6



Selected Chartered Bank Assets, 1984–2003
(Monthly Average)

Note: Last data point is November 2003.

Source: Statistics Canada, CANSIM, series v36867, v36868 and v36869.

The requirements for getting a personal line of credit are generally much more strict than for more expensive forms of credit, such as a credit card. Consequently, some consumers may be unable to take advantage of the lower interest rates offered by personal lines of credit. In addition to those who may be unable to access lower rates, some consumers may simply have not actively investigated cheaper alternatives to managing their current debts. This appears to be supported by 2003 public opinion data: 46 percent of Canadians 25 to 64 years of age (who are the main or joint decision maker of the household) reported that they had not structured their debt so that they could pay the lowest possible amount of interest (Ipsos-Reid 2003c).

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[217] Data from the Bank of Canada relate to the value of all personal lines of credit as part of chartered banks' assets — not all such lines of credit are necessarily for consumer activities.

Credit cards

According to the Canadian Bankers Association (CBA), over the past two decades the number of personal and business credit cards in circulation has increased fivefold, from 10.8 million cards in 1980 to 50.4 million cards as of the end of the 2003 fiscal year (CBA 2003). Comparing these figures to the adult (18+) population, this represents an increase from an average of 0.62 credit cards per adult Canadian in 1980 to 2.05 cards in 2003.[218] However, data from the SFS reveal that while Canadians are, on average, using more credit cards, the percentage reporting credit card debt (including deferred or instalment plan payment) has decreased (see Figure 7.1).

Data provided by Equifax Canada demonstrate that the growing number of credit cards in circulation has greatly increased the amount of credit available to consumers. The real[219] aggregate outstanding credit limit available on credit cards increased from $73 billion in 1992 to $199.8 billion in 2002. On an adult per capita basis, this is an increase from a real average credit card limit of $3418 in 1992 to $8204 in 2002.

Equifax Canada data can also be used to analyze credit card trends by credit rating. First, regardless of the business cycle, a large majority of active credit cards are consistently classified with a "Good" credit rating (97.1 percent in 2002, up from 95.6 percent in 1992). Second, in terms of average credit limit per card, Equifax data show that it generally increased for all ratings. Furthermore, for credit cards with the worst rating, consumers are using up a significantly greater share of the credit available. More specifically, the percentage of credit used with "Serious Delinquent, Action Taken" credit cards increased from 74.3 percent (of an average $2779 limit, in 2002 dollars) in 1992 to 89 percent (of an average $3600 limit) in 2002 (while remaining relatively stable for credit cards with the best rating) (see Figure 7.7). All ratings combined, the average credit used per credit card (tradeline) increased from $796 in 1992 to $1553 in 2002.

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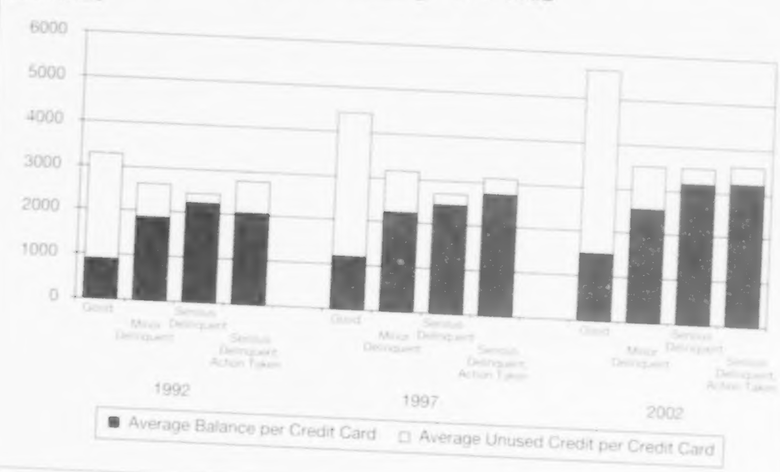
[218] Source of population data: CANSIM, series v466677.

[219] Figures are based on constant 2002 dollars, adjusted by the all-items CPI.

FIGURE 7.7

Average Balance and Unused Credit per Credit Card by Credit Rating, 1992–2002



Source: Data obtained from Equifax Canada.

The rise in the use of credit, particularly with respect to cards with the worst credit rating, is likely interrelated to the trend of rising bankruptcies (see Section 7.2, Trends in Consumer Bankruptcies). Anecdotal evidence suggests it is not uncommon, leading up to bankruptcy filing, to see an overall increase in a person's use of credit, in parallel with their increasing delinquency.

Some research suggests that credit cards can be a "lender of last resort" when times get tough financially (Chmiel 2002, 9). When asked why they do not pay off their credit card balance completely each month, 50 percent of consumers who report sometimes, or usually, carrying a credit card balance say they use their credit card to cover one-time expenses (such as a car repair or replacing a broken appliance), and 13 percent reported using it to pay for things they needed regularly, such as food and rent.[220] This was especially true for consumers in the lowest household income category (less than $20 000 a year), one third of whom reported carrying a credit card balance to meet basic expenditures.

The survey data suggest that some consumers may indeed be using their credit cards, a fairly expensive form of credit, as a source of "emergency funds" and probably have relatively little liquid capital (and/or other options for borrowing). A lack of financing options in the case of emergencies may be particularly difficult to manage for consumers who have moved into the worst credit rating, as their unused credit on cards declined from $715 in 1992 to $395 in 2002.[221]

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[220] Note that this question was aided (correspondents picked from a list of choices). Question commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey (2003, first quarter).

[221] These figures are presented in 2002 dollars.

Some consumers have trouble getting a credit card

The SFS data reveal that, in 1999, roughly 2.7 million households (or 21.8 percent) did not have a credit card.[225] Only a small percentage (17.2 percent) of those households, however, reported being turned down for this type of credit. But of those who *were* denied access to a credit card, nearly two thirds (65.7 percent) were in the lowest income quintile and more than a fifth (21.9 percent) were in the second lowest income quintile. Due to their inability to get a credit card, these households may face particular challenges in purchasing some services. Renting a car, for example, may be very difficult to do without a credit card.

While consumers are increasingly acquiring and using credit cards, there are also some concerns about their level of knowledge of the terms and conditions associated with them. A 1997 survey of consumers' credit card usage reported that:

> Canadians love credit cards, and rely on them constantly, but they think they know more about credit cards than they do. … Despite their good intentions, Canadian credit cardholders don't know the basics about their own cards, including essential information such as how to calculate interest charges, the length of their grace period or the annual fees they may be paying (CardTrak Online 1997).

For example, the survey found that 58 percent of cardholders did not know the interest rate they were paying on the card they used most often,[222] 28 percent did not know their card's annual fee, and four in ten did not know the number of days in their card's grace period.[223] With the majority of consumers unaware of their credit card interest rate, it is not surprising another survey revealed that approximately one third (34 percent) of those carrying a balance on their credit card stated they did this simply because they found it a "convenient method to borrow" for things they wanted.[224]

These concerns about consumers' knowledge of the products should also be considered in light of the fact that the CBA reports that cash advances on credit cards (which accrue interest immediately upon receipt of the funds) have grown at a staggering pace over the last two decades. Cash advances increased from $180 million in 1984 to $21.7 billion in 2003. While the CBA data include personal and business credit cards, and the figures are in nominal terms, there is clear evidence of the trend toward increasing use of cash advances by consumers.

A recent study of consumer bankruptcies noted that most included credit card debt and that "credit cards are being used by a larger, more diverse group of people. This wider distribution means that lenders are reaching out to borrowers with higher credit risks" (Chmiel 2002, 31). It also noted a strong correlation between personal bankruptcies and cash advances on credit cards, and that:

> People experiencing financial stress may use cash advances as a substitute for income they have lost. There are no restrictions on what the money is used for (groceries, paying the rent, paying off other creditors, etc.), nor do they have to "apply" for them. They are already qualified by being a cardholder (Chmiel 2002, 32).

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[222] Note that results are for all cardholders; results limited to only those cardholderes who carry a balance on their card were not presented. Some cardholders may be unaware of the interest rate because they pay off their full balance each month, so the interest rate is largely irrelevant to them.

[223] See CardTrak Online 1997.

[224] Question commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey (2003, first quarter).

[225] Statistics Canada, SFS, custom tabulations.

Alternative financing

Alternative financing includes services such as payday loans, pawnbroker services, rent-to-own operations and cheque cashing. These services are some of the most expensive ways for consumers to borrow; for example, when stated on an annual percentage rate (APR) basis, a typical payday loan is between 390 percent to 650 percent (Ramsay 2000). Anecdotal evidence suggests this sector is growing in Canada. For example, a 2000 report states that revenue from Canada's largest rent-to-own company (operating stores across Canada) increased from $422 000 in 1992 to $56 million in 1997, and that the number of pawnbrokers listed in a Toronto business directory doubled between 1996 and 1999, with a similar pattern in Northern Ontario (Ramsay 2000, vi and 44). Furthermore, a prominent provider of payday loan and cheque-cashing services indicated that its number of franchised and corporate branches increased from 100 in 1994 to 200 in 2000, and was currently approaching 300 (Money Mart 2003).

In a detailed study of the alternative financial sector (AFS), the Public Interest Advocacy Centre (PIAC) found that the demographic characteristics of those using such services did not differ markedly from those of the general population (Lott and Grant 2002, 38). PIAC concluded that this sector was not strictly catering to the poor, and estimated that only 15 percent of AFS customers would fall under Statistics Canada's (before-tax) low income cut-off.[226] Focus group tests revealed that the AFS could generally be divided into two groups of customers: those who used the service because of their poor credit rating, and those who had other options but preferred AFS services for a variety of reasons, such as confidentiality, friendly service, or convenient hours (Lott and Grant 2002, 40). The data also revealed that "a basic lack of financial literacy was leading customers to place less emphasis on the cost of alternative financial services and more on other factors" (Lott and Grant 2002, 43).

Conversely, a study examining the AFS in Winnipeg's North End found that the growth of this market was in part related to insufficient access to traditional banking services. The report states that factors correlated with the use of alternative financial services include limited access to mainstream institutions and products. For example, the report notes that a number of traditional bank branches have shut down in the North End of Winnipeg, presenting difficulties for residents in the area who rely on public transportation (Buckland and Martin 2003, vi). The report also notes that persons who used cheque-cashing services often said they did so because they were unable to obtain credit cards or other personal loans from mainstream banks because they had a poor credit rating (Buckland and Martin 2003, 30).

Research opportunities

Further research into the financial situation and debt management of new homebuyers would add to our understanding of this group of consumers, particularly given the ever-shrinking down payment needed to enter the housing market. Questions that could be addressed include: Are new homeowners taking out mortgages they can afford? What proportion of homeowners across Canada return to renting as a result of encountering financial difficulties shortly after buying a home? In a context where much media attention is given to historically low mortgage rates as a good time to purchase a home, are consumers underestimating the non-mortgage costs of home ownership; for example, "set-up" costs, municipal taxes, general repairs and utilities?

Given the general level of consumer indebtedness, research could investigate Canadians' vulnerability to interest rate fluctuations. How would an increase in the interest rate affect current homeowners with mortgages? What impact might this have on consumers carrying unsecured debt? More broadly, more work would also need to be done on defining the multifaceted concept of overindebtedness. Such an undertaking would require gaining a better understanding of credit granting and scoring.

Finally, research should also be geared towards assessing the financial choices of poor Canadians. For example, are there effective mechanisms available to them for accumulating retirement savings? How difficult is it for these consumers to get financial information? What influences their financial decision making: income, education and skills; or other factors?

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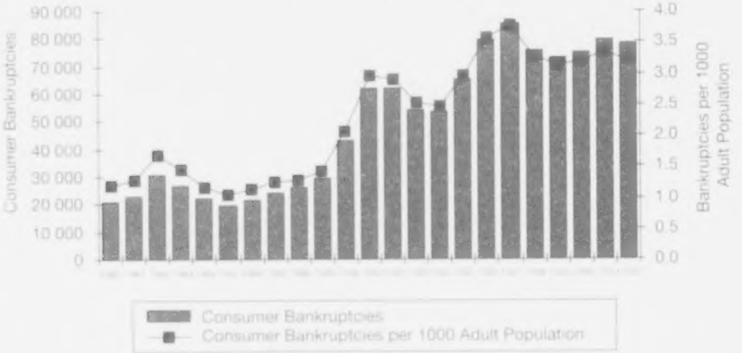
[226] PIAC noted one exception to this result, saying that the pawnshop sector more correctly fits the characterization of a business "preying on the poor." Source: Lott and Grant 2002, 38.

7.2 Trends in Consumer Bankruptcies

An examination of consumer bankruptcy data over the past 20 years reveals two basic trends: the occurrence of bankruptcies is both cyclical and on a long-term upward trend (see Figure 7.8). The cyclical aspect is evident as consumer bankruptcies increased during the recessions of the early 1980s and early 1990s, and were followed by decreases when the economy improved. It is interesting to note, however, the slight increase in consumer bankruptcies between 1999 and 2002, a buoyant period. Also evident is the general upward trend: the average number of consumer bankruptcies in the 1990s (65 396) was more than two-and-a-half times greater than in the previous decade (24 447). Furthermore, the peak for consumer bankruptcies during the 1980s (30 693 during the recession of 1982) was lower than the trough for consumer bankruptcies during the 1990s (42 782 consumer bankruptcies in 1990).

FIGURE 7.8

Total Consumer Bankruptcies and Bankruptcies per 1000 Adult (18+) Population, 1980–2002



Source: Industry Canada, Office of the Superintendent of Bankruptcy (consumer bankruptcies) and Statistics Canada, CANSIM, series v466677 (population).

A 2001 survey among 800 Canadians who had declared bankruptcy over the 1996–98 period compared the profile of these ex-bankrupts with that of the general Canadian population (Léger Marketing 2002). It revealed that the ex-bankrupts:

- were proportionately more in their prime working-age years (60.9 percent of ex-bankrupts were aged 31 to 50 and 9.8 percent aged 30 and under, compared to 41.6 percent and 21.1 percent, respectively, for the general Canadian population);
- had achieved lower levels of education (only 17.5 percent of ex-bankrupts had completed university, compared to 27.2 percent of the general Canadian population);

- had lower household income (more than three quarters earned less than $40 000, compared to 33 percent of the general Canadian population); and
- were more likely to have one or more dependants (58.7 percent compared to 47.2 percent).

These results parallel some of the findings reported in a 1996 article:

> ...the available evidence shows that consumer bankrupts belong primarily to low and lower income groups with negligible or no discretionary incomes, that they are encumbered with very heavy debt burdens (in relation to their resources) which they would not be able to pay off over any reasonable period of time, and are subject to significantly higher levels of unemployment than the general population (Ziegel et al. 1996, 81–82).

A related study notes that, in general, people who file for bankruptcy do not voluntarily work less. Rather, many of these people are employed only part time (especially during the time leading up to bankruptcy), and many have jobs with relatively low pay (Chmiel 2002, 18).

According to ex-bankrupts, two of the main reasons having led them to bankruptcy (each reported by about a third of ex-bankrupts)[227] were a change in their financial situation (such as a separation or a divorce, the loss of employment, health problems or a decrease in income) and an insufficient salary. Poor financial management was a third reason, reported by 17.7 percent of ex-bankrupts (Léger Marketing 2002).

As for the long-term increase in bankruptcies, it is not well understood or easily explained. A range of potential factors has been cited, such as:

> the proliferation of credit card usage, the rising costs of post-secondary education and downsizing at large corporations. Others include changes in both legislation and social attitudes towards bankruptcy, as well as rising divorce rates (O'Neill 1998, 1).

It remains, however, that "the incidence of consumer bankruptcies between the 1980s and 1990s ... has occurred despite changes to the bankruptcy legislation, which was designed to lower the incidence of consumer bankruptcies" (O'Neill 1998, 1). Furthermore, while the Bank of Montreal did conclude that the rising divorce rate was a statistically significant variable in the consumer bankruptcy picture, it also noted that this did not in itself explain the sharp change in the data, that is, the large increase in consumer bankruptcies beginning in the early 1990s (O'Neill 1998, 7).

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[227] Respondents could identify up to three responses.

As for the impacts of marketplace changes on bankruptcy rates, recent analysis is unfortunately not available, but a comprehensive, early 1980s study of consumer bankruptcies in Canada concluded that "in many cases of bankruptcy, the consumer's access to more credit should have been restricted earlier" (Brighton and Connidis 1982, 85).

It therefore appears that a complex interaction of factors is at play when it comes to bankruptcy trends.

Rising debt loads: A shared responsibility?

A recent public opinion poll listed a number of potential explanations for the trend towards increasing debt and asked Canadians whether or not they agreed with each factor. Interestingly, two factors that Canadians tend to associate most with increasing debt are easier access to credit (86 percent of those polled agreed this was a contributing factor) and a lack of financial/budgeting skills (82 percent).[228] These data suggest that Canadians view consumer debt issues as a shared responsibility: they recognize a personal responsibility for maintaining one's finances, but they also feel that financial lenders have a role to play in ensuring that the credit extended is manageable.

Research opportunities

Research to date has been insufficient to explain the strong upward trend in consumer bankruptcies that began in the early 1990s. Further research could examine the effect of a number of variables on consumer bankruptcy, such as the expansion of consumer credit, and the dissolution of family units (i.e. divorce/separation). It may also be interesting to examine whether there has been, in fact, an attitudinal shift in Canadian society towards bankruptcy, as suggested by some preliminary public opinion research (Industry Canada 1997).

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[228] These figures compare to social pressure to spend (72 percent), need to borrow to cover essentials (68 percent), and low interest rates (66 percent). Question commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey (March 2001).

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CHAPTER

Consumer Net Worth

Summary

The financial performance of economic family units (and unattached individuals) has been highly variable when comparing the 1984 and 1999 data. Canadians have generally improved their net worth, but most of this improvement is due to gains by the wealthiest fifth of Canadian family units — further evidence of financial polarization in Canada. In contrast, in terms of economic family types, two-parent families with a main income earner younger than age 65 and with children (under age 18) at home had the worst performance in median net worth. As a group, they experienced a marginal decrease (-$100) in their median net worth, and many *young* two-parent families, in particular, have faced severe financial pressures. While lone-parent families have experienced tremendous growth in their net worth, many still remain in a very vulnerable financial situation. In 1999, their median net worth was still 20 times less than that of two-parent families with children. The evidence also suggests that, on average, young Canadians (regardless of family status) have experienced some weakening in their financial balance sheets, with student loan debt contributing to this trend. Finally, older Canadians (aged 55 and up) have made strong gains in their net worth, while baby boomers (between the ages of 35 and 54) have lost ground when comparing 1984 to 1999. **Research opportunities** include investigating whether the relatively weak financial status of many young consumers is a temporary phenomenon or whether this "bad start" will have significant repercussions. The impact of low incomes and low net worth experienced by a number of lone parents would also merit further consideration. The stagnation over the past 15 years of net worth for families with children may also raise long-term issues of financial security, as these consumers move to the next stage of their family life cycle. As for baby boomers, retirement self-sufficiency may become a growing issue requiring further research. Finally, while seniors are generally better off today, trends toward their use of more expensive forms of credit suggests the need for research into how well they are dealing with financial marketplace decisions.

Chapter Eight
Consumer Net Worth

This chapter brings together the information in Chapters 6 and 7 to present a picture of the net worth of particular groups of Canadian consumers. It briefly reviews trends in net worth by income quintiles, then presents the more significant trends for five broad groups: two-parent families with children; lone-parent families; young consumers; baby boomers and pre-retirees; and seniors.

Statistics Canada's National Balance Sheet Accounts show that the net worth of the personal sector (which includes persons and unincorporated businesses) was $3.6 trillion at the end of 2002. This is up from $863.6 billion in 1980, an average annual growth rate of 6.7 percent.[229]

While noteworthy, the National Balance Sheet Accounts can only be disaggregated by specific types of assets and debts, and not by any demographic variables. Consequently, it provides only minimal insight into the financial situation of consumers. A much broader examination of the net worth of Canadians, defined as total assets minus total debts, requires the use of Statistics Canada's Survey of Financial Security (SFS), a comprehensive survey of the assets and debts of Canadians.[230] Prior to the 1999 SFS, the last net worth survey in Canada was conducted in 1984. Canadians have improved their net worth, although most of this improvement is due to gains by the wealthiest fifth of Canadian family units. Comparing 1984 to 1999, the median net worth of Canadian family units increased 11 percent[231] (see Figure 8.1). The wealthiest 20 percent of Canadian family units (as measured by net worth) increased their net worth by 39 percent, but there was virtually no growth for the bottom 40 percent of family units.

FIGURE 8.1

Changes in Median Net Worth, by Net Worth Quintile: 1984 and 1999

Net Worth Quintile	Median Net Worth (1999 $)		Change in Net Worth	
	1984	1999*	Amount ($)	(%)
All Family Units	**58 400**	**64 600**	**6200**	**10.6**
Lowest 20%	0	-600	-600	—
Second 20%	12 300	12 500	300	1.6
Third 20%	58 400	64 600	6200	10.6
Fourth 20%	124 400	157 500	33 000	26.6
Highest 20%	291 200	403 500	112 300	38.6

*1999 data are adjusted to be made comparable to 1984 data.

Source: Table 4.2 of Statistics Canada Cat. No. 13-595, p. 30.

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[229] Source: Statistics Canada, CANSIM, series v33406.

[230] See the text box at the beginning of Chapter 6 for a description of the Survey of Financial Security.

[231] In this chapter, family units are the combination of economic families and unattached individuals.

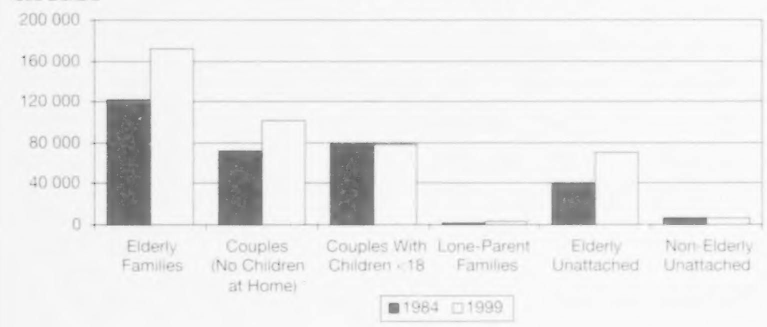
In 1999, 70 percent of total net worth in Canada belonged to the top 20 percent of family units, with the top 10 percent accounting for slightly more than half (53 percent) (Statistics Canada 2001a, 9). This distribution, however, is less pronounced than the concentration in the United States, where as of 1998, the top 10 percent of families accounted for more than two thirds (68.7 percent) of total net worth.[232] Despite the relatively lower concentration in Canada in comparison to the United States, trends in net worth in this country provide further evidence of polarization that was presented in the analysis of incomes (Chapter 5).

Two-parent families with children

Considering 1984 and 1999 data, two-parent families with a main income earner younger than age 65 and with children (under age 18) at home had the worst performance in median net worth compared to any other economic family type (see Figure 8.2).[233] Not only did they not gain any ground over this period, two-parent families with children actually experienced a marginal decrease (-$100) in their median net worth, the only economic family type to do so during this period.

FIGURE 8.2

Median Net Worth by Economic Family Type, 1984 versus 1999*



* 1999 data are adjusted to be made comparable to 1984 data.
Source: Statistics Canada, SFS, custom tabulations.

Significant variations in net worth also exist among various income quintiles within the two-parent family with children (under 18) category (see Figure 8.3). The Canadian Centre for Policy Alternatives confirms that a dramatic polarization occurred in the average[234] net worth growth rate for this important economic family unit (Kerstetter 2003, 58). This result, combined with information on consumers' incomes, suggests that the increasing polarization in Canada has not been experienced solely by groups traditionally viewed as vulnerable, such as lone-parent families or elderly widows.

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[232] Furthermore, the top 0.5 percent of families in the U.S. accounted for more than a quarter (25.8 percent) of total net worth in 1998 (Kennickell 2000).

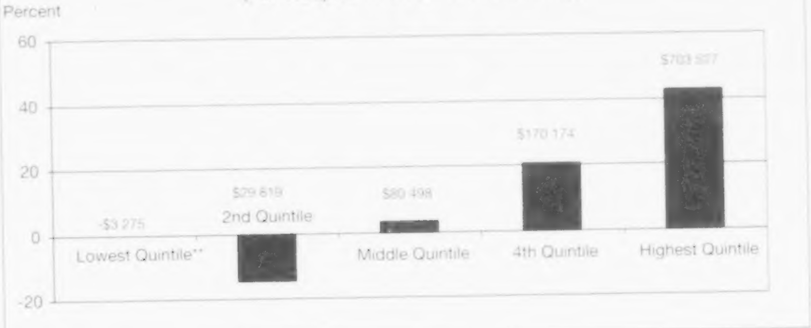
[233] An economic family is defined as "a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage or adoption." This concept of an economic family is slightly different than a census family. As a consequence, caution should be used when comparing statistics based on different definitions.

[234] Note that the Canadian Centre for Policy Alternatives did not present comparable figures for median net worth.

FIGURE 8.3

Percentage Change* in Average Net Worth (1984 versus 1999) and Corresponding Net Worth in 1999 by Income Quintile

(For Couples With Children Under 18)



*Year-over-year growth rates are presented, i.e., comparing 1999 to 1984; they are not annualized.

**The percentage change for the lowest quintile is not represented in the chart — average net worth for this group declined from $65 in 1984 to -$3275 in 1999.

Source: Steve Kerstetter, *Rags and Riches: Wealth Inequality in Canada*, Canadian Centre for Policy Alternatives, January 2003.

Many *young* two-parent families, in particular, have faced severe financial pressures. Research from Statistics Canada supports this finding: a recent article divided couples with children (under age 18) into three age groups and presented time-series data on three financial indicators: the proportion of each group experiencing low income (as measured by the low income cut-off),[235] the proportion experiencing low income who also have zero (or negative) financial wealth,[236] and the proportion experiencing low income who have only modest financial wealth (Morissette 2002).[237]

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[235] The Appendix provides more details on the low income cut-off.

[236] Financial wealth is defined as net worth minus net equity in housing and net business equity. It represents the stock of assets that a family could use quickly to finance current consumption (without selling their house, its contents or a business). It includes both financial assets (e.g. deposits in institutions, RRSPs) and non-financial assets (e.g. vehicles).

[237] A family is considered to have low income and modest financial wealth if the total of their financial wealth is less than their associated low-income gap. That is to say, it represents a family that would remain with low income even if they converted all their financial wealth into current income.

FIGURE 8.4

Financial Indicators of Couples with Children (Under 18)

Low Income and No Income Recipient	Low Income (%)		Low Income and No Financial Wealth (%)		Low Income and Financial Wealth < Income Gap (%)	
	1983	1998	1983–84	1998–99	1983–84	1998–99
25 to 34	11.2	14.1	4.9	5.8	8.5	10.5
35 to 44	8.2	9.3	2.7	2.7	6.0	5.5
45 to 54	7.7	7.3	3.0	1.9	5.2	4.6

Source: Table 3 of "Families on the Financial Edge," in *Perspectives on Labour and Income*, Statistics Canada Cat. No. 75-001, Vol. 3, No. 7, July 2002, p. 9.

Figure 8.4 reveals that, when comparing 1984 to 1999, the situation of young couples (ages 25 to 34)[238] with children (under 18) has deteriorated across all three financial stress indicators considered in the study. For example, the percentage of these young families experiencing low income increased from 11.2 percent in 1983 to 14.1 percent in 1998, and the percentage experiencing low income and no financial wealth (an indication of very severe financial stress) increased from 4.9 percent to 5.8 percent during this same period. Conversely, the financial situation of slightly older couples (45 to 54 years of age) with children younger than 18 has improved, with all three financial stress indicators decreasing over the period.

Lone-parent families

The financial situation of lone parents, while still not good, has improved. This family type experienced the most rapid growth in net worth from 1984 to 1999, increasing at an annual rate of 4.5 percent. (Compare this to virtually no growth for non-elderly two-parent families with children.) This performance is likely due to the strong gains in the income of lone parents over the most recent recovery period of the late 1990s to date (see Chapter 5). While the growth rate of lone parents' net worth is impressive, it must be seen in context. In 1999, their median net worth was just $3700, approximately 20 times less than that of two-parent families with children ($77 800) (see Figure 8.2). In addition, nearly one in four lone-parent families (24 percent) had both low income and no financial wealth in 1998–99, a rate almost seven times higher than that of couples with children under 18 (3.5 percent) (Morissette 2002, 9).

So, while the situation is improving for lone-parent families, they still face very significant challenges as a result of their weak balance sheets and many lone parents continue to live on a day-to-day budget. For example, consider that the median balance held by lone parents at financial institutions was just $500 in

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[238] Note that the age of a two-parent family with children younger than 18 is defined as the age of the main income recipient of the family.

1999 and that even at that, almost one in five lone parents (18 percent) did not report ownership[239] of *any* deposit at a financial institution in 1999, an increase from only 1 in 10 (13 percent) in 1984.[240] Furthermore, only 56 percent of lone parents reported having a credit card in 1999, and for those who did not have one, one in four reported being turned down for this basic type of credit.[241] Given their overall low level of financial assets and difficulty in obtaining credit, it is perhaps not surprising that female lone-parent families[242] were more than twice as likely to fall behind in bill payments, compared to couples with children under 18 (31.5 percent versus 15.5 percent, respectively) (Pyper 2002, 19). Furthermore, the incidence of *young* female lone parents falling behind was much greater: more than half (53 percent) of those under age 25 reported falling behind at least two months for a bill, loan, rent or mortgage payment in 1998 (Pyper 2002, 19).

Not surprisingly then, evidence suggests that lone-parent families frequently do not have a secure long-term financial plan. For instance, ownership of a home represents a significant investment for any family, and potentially an important element of long-term financial security and retirement planning; this may be especially true for lone parents. SFS data indicate that while the home ownership rate of lone-parent families increased from 36 percent in 1984 to 41 percent in 1999, this rate still remained well below that of all family units (62 percent) and at roughly half the rate of two-parent families with children (77 percent) as of 1999.[243] In addition, according to Statistics Canada, 53.7 percent of lone parents had no private pension assets in 1999,[244] a rate significantly higher than that of two-parent families with children (19.6 percent) (Statistics Canada 2001a, Table 5.1, 22).

Young consumers

Younger consumers have experienced sharp declines in their net worth. In fact, comparing 1984 to 1999, the median net worth of the youngest adult Canadians has declined more than that of any other age group. For family units under the age of 25, median net worth declined at an annual average rate of -16.7 percent, from $3000 in 1984 to $200 in 1999. Family units between the ages of 25 and 34 did relatively better, but their median net worth still declined at an annual average rate of -2.9 percent, from $23 400 in 1984 to $15 100 in 1999.

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[239] It is possible that some individuals had a bank account with no money it at the time of the survey, although it is assumed that this would be the exception, and that not reporting ownership of any assets in a bank account is a reasonable proxy for individuals without a bank account.

[240] Source: Statistics Canada, SFS, custom tabulations.

[241] Ibid.

[242] The rest of this paragraph focusses on female lone parents (who head the overwhelming majority of lone-parent families). Comparable statistics for all lone-parent families were not published by Statistics Canada.

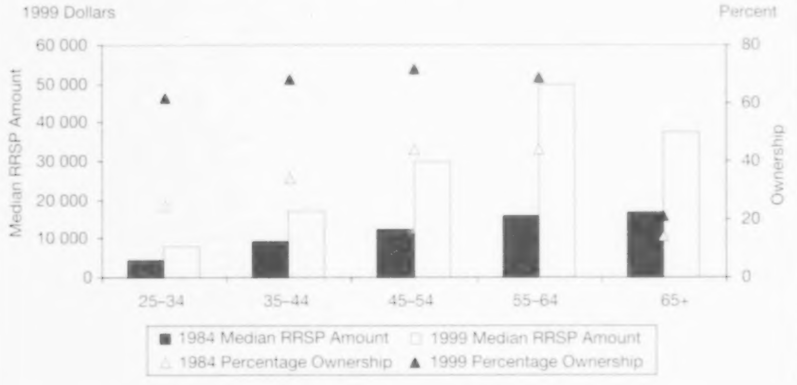
[243] Source: Statistics Canada, SFS, custom tabulations.

[244] Private pension assets are defined as RRSPs, Registered Retirement Income Funds and locked-in retirement accounts, the value of employer pension plans, and other private pension assets such as annuities.

Nevertheless, both age groups (under age 25 and 25 to 34) managed to increase their financial assets during this time, shifting away from deposits at institutions. The median deposits held by family units under age 25 fell from $1165 in 1984 to $700 in 1999, while the median held by those aged 25 to 34 dropped from $2605 to $1500 during the same period. These declines, however, were more than offset by increased contributions to Registered Retirement Savings Plans (RRSPs) (see Figure 8.5).[245]

FIGURE 8.5

Median RRSP Holdings and Ownership by Age,* 1984 versus 1999*



*Data include families and unattached individuals. For families, age relates to the major income recipient.

Source: Statistics Canada, SFS, custom tabulations.

Despite increasing their financial assets, the debt-to-asset ratio for young family units rose over the 15-year period from 24.4 percent in 1984 to 34.7 percent in 1999 for those under age 25, and from 29.7 percent to 40.5 percent for those aged 25 to 34 during the same period (see Figure 8.6).

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[245] Note that as a result of an insufficient sample size for 1984 data, Figure 8.5 does not present time-series data for Canadian family units under the age of 25.

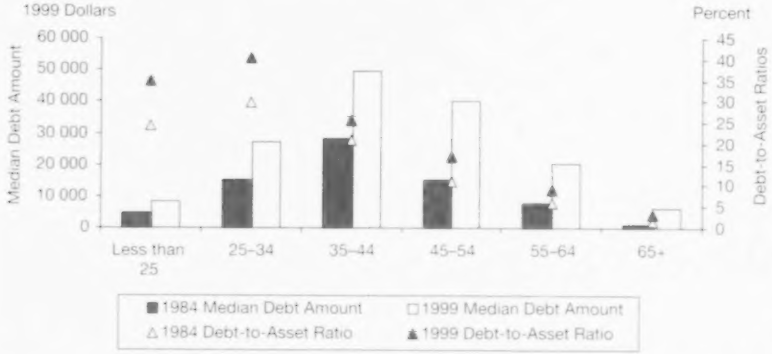
A brief history of legislation concerning student loans and bankruptcy

Prior to 1997, student loans were treated like other forms of consumer debt. That is, a person declaring bankruptcy could be discharged from a student loan provided that a trustee or creditor did not believe the person was abusing the system.[247] In 1997, the *Bankruptcy and Insolvency Act* was amended to make student loans non-dischargeable if a debtor was a part-time or full-time student or if the filing occurred within two years after graduation. In 1998, a further amendment increased this period to 10 years. More recently, both the Personal Insolvency Task Force (2002) and the Standing Committee on Banking, Trade and Commerce (2003) recommended reducing the non-dischargeable period if it could be demonstrated to the Court that maintaining the student loan would result in undue burden.

Source: Kroft, *Debtors and Creditors Sharing the Burden: A Review of the Bankruptcy and Insolvency Act and the Companies' Creditors Arrangement Act. Report of the Standing Senate Committee on Banking, Trade and Commerce*, (Ottawa), 2003, 48–56.

FIGURE 8.6

Median Debt and Debt-to-Asset Ratios by Age Group,* 1984 versus 1999



*Data include families and unattached individuals. For families, age relates to the major income recipient.

Source: Statistics Canada, SFS, custom tabulations.

There has been a major shift in the kinds of financial obligations incurred by 19- to 24-year-old Canadians over the last decade. For example, Equifax data reveal that between 1992 and 2002, there has been a substantial increase in the number of active credit cards held by young consumers. These increased from about 1.7 million in 1992 to 3.3 million in 2002, an average annual growth rate of 6.5 percent. This is greater than the 4.8 percent average annual growth in active credit cards held by the adult population over this period. This trend may be linked in part to the promotion of credit cards among young consumers, which, in some cases, has even occurred on campuses.[246]

Similarly, Equifax data also reveal that there has been explosive growth in the number of instalment loans held by young consumers between 1992 and 2002. The number of loans from traditional financial institutions grew at an average annual rate of 16.2 percent over the decade (from approximately 487 000 to 2.2 million loans), while the number of instalment loans from finance companies increased at an average annual rate of 37.6 percent (from approximately 14 300 to 348 900 loans). As the young adult population grew only very marginally over this period (at an average annual rate of 0.4 percent), this represents very significant growth in instalment loans.

An important factor in the accumulation of substantial amounts of debt by young family units is the rapid growth of outstanding student loans between 1984 and 1999. For example, a 2001 survey indicates that 70 percent of post-secondary students finance their education, in part, through debt (Dubé 2003, B10).

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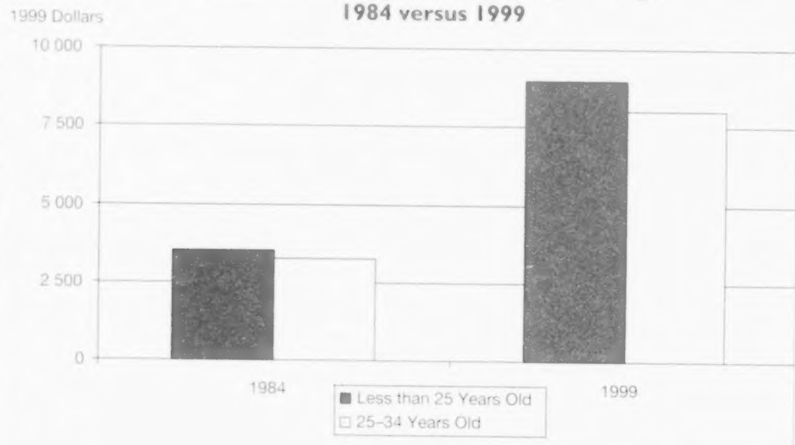
[246] See, for example, Stead 2002.

[247] A creditor had the right to oppose a discharge if abuse of the system was suspected, and a trustee could refuse to accept a consumer proposal under this circumstance as well.

According to the SFS, in the group aged 25 and under (either an unattached individual or a family with major income earner age 25 and under) the percentage reporting student loan debt more than doubled from 1984 to 1999, from 15 percent to 34 percent, and tripled for those slightly older (ages 25 to 34), from 8 percent to 24 percent. In addition, the median amount of outstanding student loan debt for both these age groups more than doubled over this period, increasing from $3525 to $9000 for the group aged 25 and under and from $3218 to $8000 for those 25 to 34 years of age (see Figure 8.7).

FIGURE 8.7

Median Student Loan Debt by Age Group,* 1984 versus 1999



*Data include families and unattached individuals. For families, age relates to the major income recipient.

Source: Statistics Canada, SFS, custom tabulations.

Other sources suggest that student loan debt has become an increasing concern of Canadian graduates. Information comparing 1990–91 to 1995–96 from the Canada Student Loans administrative data system reveals an upward trend in the 12-month default rate,[248] from 17.6 percent to 21.8 percent (Plager and Chen 1999, Table 1, 33, and Table 4, 34). Furthermore, the proportion of students having difficulties making repayments[249] also rose substantially over this period, increasing from 21.7 percent for the 1990–91 cohort to 30.9 percent for the 1995–96 cohort (Plager and Chen 1999, 21).

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[248] A default is defined as a loan being delinquent for more than three months, regardless of the reason. It should be noted that a portion of borrowers that default end up paying off their loans (e.g. through a collection agency), while others have their loans discharged through bankruptcy.

[249] Borrowers who received temporary assistance from the Interest Relief Plan (to help them make monthly payments) and those who defaulted on their loans are defined as those having difficulties making repayments.

Finally, another noteworthy trend during the decade has to do with automotive dealership finance (instalment) loans. While the average dollar value of outstanding car sale finance loans to young consumers increased only marginally between 1992 and 2002, the number of these loans grew more substantially.[250] One explanation for this might be changing practices of the automotive industry. A recent report notes:

> Helping younger buyers afford new cars has been achieved through various marketing efforts. Most automakers offer discount programs for recent graduates of Canadian post-secondary institutions. Recent incentive campaigns such as zero percent financing have helped make cars more affordable as well (Environics Research Group/CROP 2001).

In summary, the number of financial obligations held by young consumers increased significantly over the decade. This may spell trouble in the future, given the weak financial position of young Canadians generally and the increasing costs associated with post-secondary education for some.

Baby boomers and pre-retirees

For the following analysis, baby boomers are defined as persons between the ages of 35 and 54, and pre-retirees those aged 55 to 64, in 1999. When only considering net worth, SFS data portray some important differences between these groups. In both 1984 and 1999, pre-retiree family units were the wealthiest group of Canadians. Over this period, their median net worth rose at an average annual rate of 1.2 percent, increasing from $129 100 to $154 100 (see Figure 8.8). The data for baby boomer family units, as a group, indicate a weaker performance. The SFS splits data for this group between two 10-year age groups, and both groups lost ground when comparing 1984 to 1999. This was especially true for the younger group. This latter group of family units (35 to 44 years of age) experienced an average annual decline in their net worth of -1.3 percent over this period, compared to -0.5 percent for those aged 45 to 54.

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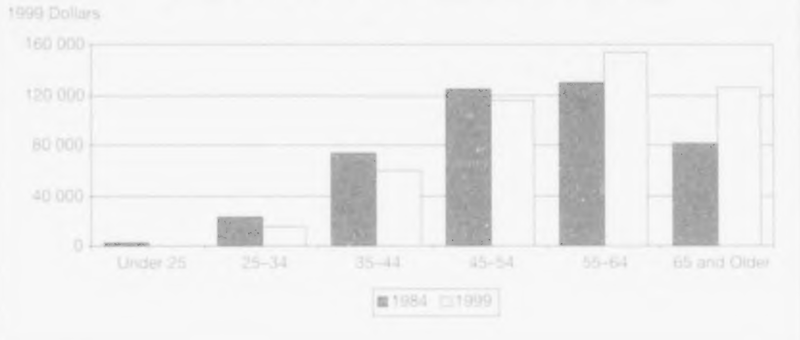
[250] Between 1992 and 2002, the number of outstanding car sale finance loans to Canadians aged 19 to 24 grew at an average annual rate of 5.9 percent, while the average value of these loans grew at a very modest 0.4 percent (average annual rate). Source: Equifax 2003 custom tabulations.

FIGURE 8.8

Median Net Worth* by Age, 1984 versus 1999



*Data include families and unattached individuals. For families, age relates to the major income recipient.

Source: Statistics Canada, SFS, custom tabulations.

As for assets, the most noticeable trend for pre-retiree family units was the sharp increase in the value of their RRSPs (see Figure 8.5). Comparing 1984 to 1999, they saw the median value of their RRSPs grow at an average annual rate of 8 percent, more than tripling over this period (from $15 675 to $50 000). This was the fastest growth (and largest absolute change in value) compared to any other age group.

While less pronounced, baby boomer family units also witnessed strong growth in the value of their RRSPs over this period (6.1 percent average annual growth for those 45 to 54 years of age and 4.2 percent for those 35 to 44 years of age). These gains in RRSPs, however, did not offset the corresponding growth in the debts held by these two age groups. For example, the debt-to-asset ratio for those 35 to 44 years of age increased from 20.9 percent in 1984 to 25.6 percent in 1999, and from 11 percent to 16.8 percent for those 45 to 54 years of age over the same period (see Figure 8.6).

Evidence suggests that some consumers approaching retirement may have insufficient savings to maintain their current standard of living after they retire. Statistics Canada estimates that one third of family units with a major income recipient[251] between the ages of 45 to 64 may not have saved enough for retirement.[252] "Saved enough," in this context, is defined as not having enough assets[253] to replace two thirds of their pre-retirement income (or, in some cases, to generate enough income in retirement to put them above the low income

Maintaining one's standard of living in retirement: A challenge across the income scale

The results of the SFS indicate that there is little correlation between employment income and having saved enough for retirement: with family units in the top income group (above $75 000) being the most likely to have not saved enough for retirement (41 percent), followed by family units in the lowest income group (less than $10 000) at 35 percent (Statistics Canada 2010, Table 6.2B, 34). This analysis does not suggest that higher and lower income Canadians in this sample face similar financial situations. Recall that the criteria for having "saved enough" is replacing two thirds of pre-retirement income. Therefore, a more accurate interpretation is that high and low income consumers in this sample are the most likely groups to have difficulties maintaining their standard of living at retirement.

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[251] Statistics Canada excluded non-income recipients from their analysis, as many are likely to be retired persons. This reduced their sample size from 3 854 000 to 2 928 000 family units.

[252] Note that many assumptions are inherent in this analysis. For more details on the methodology of this study, see Statistics Canada 2010, 23–26 and Appendix A.8.

[253] The assets considered in Statistics Canada's analysis are: 50 percent of the equity in a home, equity in other real estate, private pension assets, business equity and non-pension financial assets.

cut-off). Disaggregating the data further reveals that those least likely to have saved enough for retirement include unattached individuals (46 percent, compared to 30 percent for economic families), and those who do not own a home (59 percent, compared to 34 percent for those who own a home with a mortgage and 15 percent for those who own a home free of a mortgage) (Statistics Canada 2001b, Table 6.2B, 34).

Public opinion data for non-retired Canadians 45 years of age and older (the older boomer cohort and the pre-retired age group) appear to parallel some of the findings from Statistics Canada. A November 2002 survey[254] revealed that a majority (56 percent) of Canadians approaching retirement have not determined the amount of money they will need to acquire in savings or investments in order to have a comfortable retirement (Ipsos-Reid 2003). Furthermore, using the same poll, the RBC Financial Group reports that two thirds (67 percent) of non-retired Canadians aged 45 or older believed they were significantly affected by the downturn in the stock market during the 2001 to 2002 period (RBC Financial Group 2002). Of this group, about one fifth (22 percent) said they were "much further behind" in their retirement plans (set back at least five years) and 38 percent reported feeling "somewhat further behind" (set back one to five years) (RBC Financial Group 2002).

Seniors

Using net worth as an indicator, the financial situation of elderly families (age 65 and over) greatly improved when comparing 1984 to 1999. By far, elderly families are the wealthiest group of Canadians,[255] with a median net worth of $171 600 in 1999 (see Figure 8.9). This figure increased from $121 300 in 1984, an annual increase of 2.3 percent. Unattached elderly persons also made significant gains in their median net worth over this period, increasing from $41 400 in 1984 to $70 000 in 1999 (an annual growth rate of 3.6 percent).

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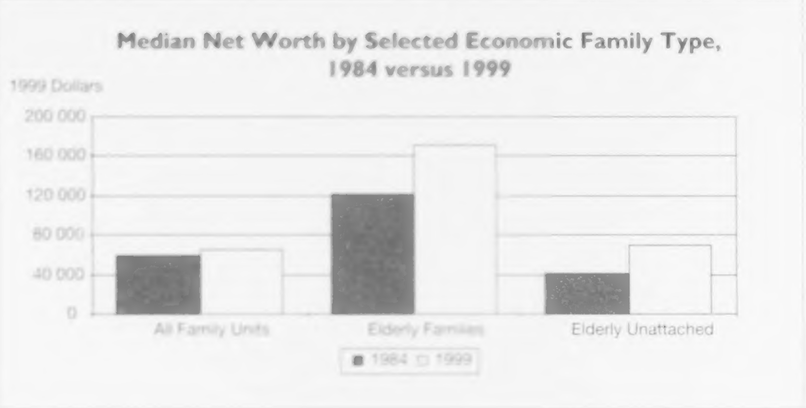
[254] This Ipsos-Reid survey for RBC Financial Group was conducted [illegible] the performance of the TSE 300 Index [illegible] improving, increasing almost 1 100 points between [illegible].

[255] Note that this does not contradict the information presented in Figure 8.8, which shows that Canadian family units between 55 and 64 years of age are the wealthiest age group. Figure 8.8 is based on all family units (economic families and unattached individuals), while Figure 8.9 focuses on an analysis of economic families.

FIGURE 8.9



Source: Statistics Canada, SFS, custom tabulations.

The stock market: Changing the retirement plans of some elderly consumers

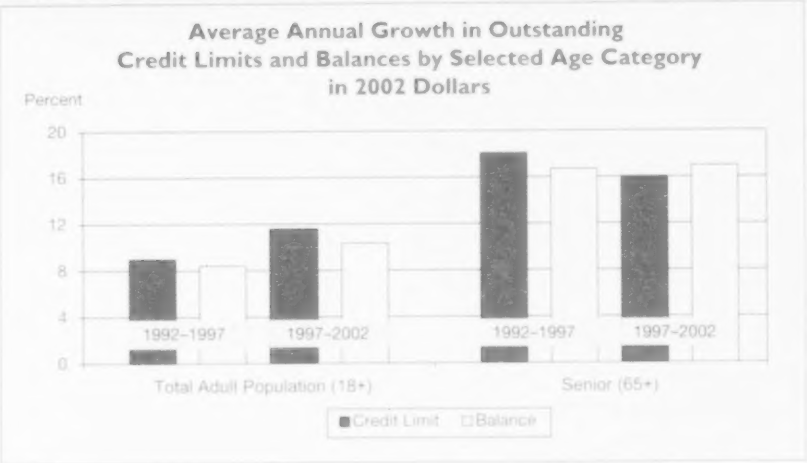
A November 2002 survey revealed that the weak stock market at that time had an impact on many retired consumers. Slightly more than half (51 percent) reported that their retirement plans had been affected by the market situation of 2001 to 2002. Of these, 33 percent reported making "significant changes/cutbacks in retirement lifestyles" and 41 percent reported making "some changes/cutbacks." Most striking, however, is that 7 percent of retired Canadians said they had gone back to work as a result of losses from the equity market.

Source: BMO Financial Group 2002.

Seniors, on average, continue to have less debt than other age groups. The SFS demonstrates that, with respect to debts, the most noteworthy statistic is just how little of it elderly people hold. Elderly family units reported median debt of just $6500 in 1999, with a debt-to-asset ratio of only 3 percent (see Figure 8.6).

Nevertheless, Equifax data reveal that both the total outstanding consumer credit balances and credit limits of seniors grew faster than the Canadian average over the past decade. During the period from 1992 to 1997, the average senior's (65+) total credit balance increased at an average annual rate of 16.7 percent, twice the rate for the adult population (8.4 percent) (see Figure 8.10). Furthermore, seniors' average credit limits grew at more than twice the rate of the adult population during this period (18.1 percent compared to 8.9 percent, respectively). While credit balances (and limits) for the general adult population began to increase more rapidly in the recovery years between 1997 and 2002, they did not approach the growth witnessed by seniors. In addition, the period from 1992 to 2002 saw an explosive rise in the number of active credit cards used by seniors, which grew at an average annual rate of 11.5 percent, more than twice the rate (4.8 percent) for the adult Canadian population.

FIGURE 8.10



Note: Data exclude mortgages.

Source: Data obtained from Equifax Canada.

Given their relatively strong income performance and general financial health, it is perhaps not surprising that seniors have been given greater access to credit over the decade. There are, however, worrying trends. While older consumers are the most likely to pay off their credit balance in full each month,[256] they are also the most likely to use their cards to pay for day-to-day necessities. In fact, of those consumers who carry a balance on their credit card, the oldest group was the most likely (19 percent) to state that they did this to pay for things they needed regularly, such as food and rent. This compares with 12 percent for those aged 30 to 44 and 8 percent for those aged 45 to 59. Furthermore, Equifax Canada data for 1992 and 2002 reveal that, while still representing only a small proportion of overall credit card trade lines, the number of "serious delinquent" credit cards held by seniors increased substantially (at an average annual rate of 20.1 percent, nearly triple the rate of 7.7 percent for the adult population as a whole).

Comparing 1992 with 2002, the number of trade lines associated with finance companies[257] also grew much faster for seniors than the general population. The number of finance company products increased at an average annual rate of 42.6 percent for seniors, from about 4700 loans in 1992 to 163 400 in 2002. This compares with an average annual growth rate of 28.8 percent for the adult population as a whole, from approximately 268 500 to 3.4 million loans.

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[256] In a 2003 survey, 68 percent of older (60 and above) Canadians polled said they paid off their credit card balance in full each month, compared to only 48 percent for those aged 45 to 59 and 22 percent for those aged 30 to 44 and 18 to 29. Question commissioned by the Office of Consumer Affairs for the Environics Research Group's Focus Canada survey (2003, first quarter).

[257] Defined as an instalment loan obtained through a personal finance company.

The increasing use of finance company loans by seniors is also striking when comparing these data with instalment loans obtained through traditional financial institutions, such as banks and credit unions. For example, in 1992 there were approximately 49 bank loans to seniors for each finance company loan. By 2002, this ratio decreased to about six to one. For the population as a whole, the ratio decreased from about 25:1 in 1992 to 6:1 in 2002, i.e., the same ratio as for seniors in 2002. The increasing use of finance company loans by seniors (and, to a lesser extent, by the general adult population) is a trend worth keeping an eye on. Finance companies generally charge a higher rate of interest on loans than do traditional financial institutions. In addition, the percentage of finance company loans with a good credit rating is substantially lower than that of loans from financial institutions. For example, in 2002, 97.2 percent of all financial institution instalment loans had a good credit rating, compared to 90.6 percent of finance company instalment loans. An increasing prevalence of high interest rate loans with poor credit ratings could be an indication of potential financial distress for some seniors in the future.

Research opportunities

This chapter showed the much weaker balance sheets of young consumers in the late 1990s, compared to in the mid-1980s. Many factors have contributed to this, including student loan debt, the longer period allocated to studies, and the difficulty that some young Canadians have in securing well-paid employment. These variables may be partially responsible[258] for an increasing number of young adults who remain within — or move back to — the parental home.[259] Further research could investigate whether the relatively weak financial status of many young consumers is a temporary phenomenon or whether this "bad start" will have significant repercussions down the road.

The impact of low incomes and low net worth experienced by a number of lone parents and certain families with young children would also merit further consideration. The stagnation over the past 15 years of net worth for families with children may also raise long-term issues of financial security as these consumers move to the next stage of their family life cycle.

Retirement self-sufficiency may also become a growing issue for baby boomers, who appear to be losing ground compared to previous generations in that age group.

As for seniors, while they are generally better off today than formerly, trends toward the use of expensive forms of credit suggest that some may still be underserved by the retirement income support system and their personal finances, and may be dealing with financial marketplace decisions for which they are ill-prepared. Lending practices towards seniors may also have significantly changed. Furthermore, it is possible that attitudes towards debt are different for today's seniors, compared to previous generations. These trends may be particularly important to follow, as baby boomers move into their retirement years and redefine yet again seniors' attitudes to financial issues.

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[258] Other potential explanations exist, including falling marriage rates and rising age of first marriage.

[259] For example, 41 percent of 20-to-29-year-olds lived with their parents in 2001, a significant increase from 27 percent in 1981. See Statistics Canada 2002: 12.

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CHAPTER

Consumer Spending

Summary

9.1 Overview of Household Spending

Canadian households' average expenditures are concentrated in four main spending categories: personal taxes, shelter, transportation and food. Recently, the highest rates of growth in household spending have occurred in sectors such as health care and education and on some durable goods (transportation, and household furnishings and equipment). **Research opportunities** include further analysis of spending patterns in the form of detailed sectoral reviews, with an eye to both historical perspective and current consumer issues. Solutions to the technical barriers encountered in using the Survey of Household Spending data, both in terms of adjusting for price changes and comparing to the Family Expenditures Survey, should also be sought.

9.2 Spending by Income Quintile

Expenditures have risen for all household income quintiles since 1997. Those in the lowest income quintile, however, spent only about one sixth of the $120 227 average expenditure for those in the highest quintile in 2002. Fifty-one percent of the lowest quintile's household budget was allocated to food, shelter and clothing, compared to 28 percent for those in the highest quintile. **Research opportunities** include further analysis of low-income consumers' spending patterns, to contribute to the continuing research on poverty issues. More research on "consumption poverty," for example, would involve discussions about which expenditures should be part of a basic household consumption measure.

9.3 Spending by Household Type

Spending on the basics places significant pressure on the budget of lone-parent and senior one-person households, two groups that are over-represented in the lowest income quintile. In contrast, non-elderly husband–wife households (with and without children) are able to spend on a wide range of products and services. For these households, protecting their consumer interest in multiple sectors while dealing with time pressures may be an issue. **Research opportunities** include analyzing further breakdowns of the spending data. Retiring baby boomers, for example, will likely pursue more active and diverse consumer activities, while the growing numbers of "older" seniors may have difficulty affording the basics. Similarly, research into the spending patterns and pressures on the relatively more disadvantaged groups (e.g. lone parents, immigrants, low-educated heads of households) would be useful.

9.4 Consumer Spending on Transportation

Most households' transportation costs are significant and mainly attributed to private transportation modes. These expenditures have shifted from purchasing to leasing, while purchases have increasingly included trucks (a category that includes mini-vans and sport-utility vehicles). Households in the lowest quintile are, however, more likely to solely or primarily rely on access to city/commuter public transportation. **Research opportunities** with respect to Canadian consumers' private transportation will need to integrate climate change issues. Further work also continues to be required to address fraud problems with car repair shops and used-car dealerships. Additional analysis of transportation trends, and mobility and access issues, by socio-economic group would likewise be useful.

9.5 Consumer Spending on Food

More than three quarters of food expenditures go towards purchases from stores, where consumers have benefited from a sustained, long-term decline in most commodity prices. Changing household time constraints over the last two decades have brought significant changes in food consumption patterns. For example, the average meal preparation time has fallen, reliance on processed and store-prepared food has increased, and purchases of fast foods have grown. The food industry has also changed in light of consolidation and technological developments. **Research opportunities** include work with respect to nutrition issues and the growing prominence of fast foods. There are also important safety concerns about today's farming and processing trends and questions about technologies such as genetic modification and food irradiation. On many of these issues, work will need to encompass a broader number of perspectives (such as social well-being) than typical of many other consumer protection topics. Another important challenge will be the development of strategies for the dissemination of consumer information on food consumption issues.

9.6 Consumer Spending on Health Care

The average out-of-pocket health care expenditure per household has grown at a relatively fast pace over the past two decades. In particular, households in the lowest income quintile and senior households are much more likely to report out-of-pocket spending on prescribed medicinal and pharmaceutical products. Spending on non-prescribed medicines has also grown, in part due to increasing use of over-the-counter products and a greater selection of vitamin/herbal remedies. **Research opportunities** include the need to carefully consider the impacts of the growing out-of-pocket expenditures on health care items being experienced by consumers, including their ability to afford and judge the quality and utility of the health care products and services they buy. Special attention may need to be paid to the consumer impacts of the growing use of technology in this sector, with a possible focus on the marketing practices of the resulting new services.

Chapter Nine
Consumer Spending

Patterns of spending give a good picture of consumer behaviour, showing various social, economic and marketplace trends at the household level. For example, the increasing number of senior couples who report spending on recreation and entertainment services (from 68 percent in 1982 to 93 percent in 2002) demonstrates their better finances and health. And the increase in average household spending on communications, more than tripling between 1982 ($375) and 2002 ($1225), reveals the "connectedness" of today's society (Statistics Canada 1982 and 2002a).

While harder to document, consumer behaviour is also revealed by decisions not to spend. For example, if enough people are involved, boycotting a company or a product (or even the threat of it) can be an effective way for consumers to make their opinions felt. Boycotting has brought about a number of changes in companies' social and business behaviour, such as the development of certain voluntary codes.[260] In fact, any consumer decision to stop buying a product can ultimately and substantially influence corporate strategies. New trends in the fast food industry's offerings are one example of the marketplace's responsiveness to consumers' willingness to walk away.[261]

This chapter reviews the main categories of spending based on Statistics Canada's 1997–2002 Survey of Household Spending (SHS) data (see the Appendix regarding limitations of making time-series comparisons over a longer time frame). It provides trends for the average Canadian household, giving an overview of household expenditures across income quintiles and household types. It then presents a review of sectoral trends for transportation, food and health care, including an analysis by income and socio-demographic group, with comparisons over the past 20 years. Taken together, these analyses suggest how purchasing decisions differ quantitatively and qualitatively among household types, and compared to the past.

9.1 Overview of Household Spending

According to 1997–2002 Statistics Canada Survey of Household Spending data, personal taxes, shelter, transportation and food are the top four expenditures in the average Canadian household. The fastest growing household spending

Spending data: Analytical implications

The spending data in this chapter are not adjusted for inflation, and all charts are in current dollars since the categories of goods and services in the consumer price index (CPI) are not always sufficiently congruent with the available categories in the spending data (complicating the process of deflating spending figures) (see the Appendix).[262] For example, the health care component of the CPI does not consider insurance premiums, which are the largest component of household health care expenditures. Nevertheless, for the purpose of providing a general indication of sectoral price trends, some CPI information is presented throughout the text (even though data sources are not perfectly comparable).

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[260] For example, development of the Canadian Standards Association's Sustainable Forestry Management Certification System was prompted largely by the fear of European boycotts of Canadian wood products (Office of Consumer Affairs / Treasury Board 1998).

[261] See, for example, Bertin 2003, B17. Healthier meals were added by McDonald's as one response to the fact that "consumers were shying away, sales were falling and the company was heading toward the first quarterly loss in its history."

[262] At the time of publication, Statistics Canada was in the process of preparing a research paper dealing with this issue of using CPI information as a deflator for household spending data. Any subsequent proposal from Statistics Canada will need to be taken into consideration in future consumer research that uses the spending data.

categories are health care and education. Other rapidly growing household expenditures, of a relatively more discretionary nature — such as transportation and household furnishings and equipment — are linked to the favourable economic conditions of recent years. At the same time, there has been relatively slow growth in the average household expenditures for clothing and for books, magazines and other printed matter.

Canadian households spent an average of $60 090 in 2002 (see Figure 9.1), an increase of about 20.4 percent from $49 907 in 1997. This is nearly double the 10.6-percent increase in the inflation rate over this period, as measured by the all-items CPI. Four household spending categories consistently account for about two thirds of the average Canadian household's total expenditures. These are personal taxes (20 percent of total expenditures in 2002), shelter (19 percent), transportation (14 percent) and food (11 percent). Since 1997 (the first year of the Survey of Household Spending), these top four expenditures have not changed, and their respective shares of total expenditures have remained very similar.

FIGURE 9.1

Average Expenditure per Household and Share of Total Expenditures, Main Spending Categories, 2002

	Average Expenditure ($)	Percent of Total Expenditures
Personal Taxes	12 025	20.0
Shelter	11 204	18.6
Transportation	8 431	14.0
Food	6 684	11.1
Recreation	3 537	5.9
Personal Insurance Payments and Pension Contributions	3 415	5.7
Household Operation	2 783	4.6
Clothing	2 450	4.1
Household Furnishings and Equipment	1 793	3.0
Health Care	1 590	2.6
Tobacco Products and Alcoholic Beverages	1 478	2.5
Gifts of Money and Contributions	1 444	2.4
Education	926	1.5
Miscellaneous Expenditures	901	1.5
Personal Care	829	1.4
Games of Chance (Net)	313	0.5
Reading Materials and Other Printed Matter	285	0.5
Total Expenditures*	**60 090**	**100**

* Totals may not add up due to rounding.

Source: Statistics Canada, Survey of Household Spending (2002).

Canadian consumer spending in context

Canadians are not alone as consumers — the consumer class is growing everywhere. A lifestyle and culture that became common in Europe, North America, Japan and a few other pockets of the world in the 20th century is going global in the 21st.

Worldwide, private consumption expenditures (the amount spent on goods and services at the household level) topped $20 trillion in 2000, a fourfold increase from 1960 (in 1995 dollars).

As incomes rise, people are gaining access to a multitude of consumer items associated with greater prosperity:

- In 2002, 1.12 billion households (about three quarters of humanity) owned at least one television set.
- There were 1.1 billion fixed phone lines in 2002 and another 1.1 billion mobile lines.
- The Internet now connects about 600 million users.

Source: Worldwatch Institute, 2004.

The seasonal nature of discretionary spending

December is the busiest shopping month, and for certain goods it is the month of greatest sales. In 2002, for example, jewellery stores and music stores generated nearly 20 percent of their annual sales in December alone (Lin 2003). The nature and intended use of other goods and services also makes the demand for them seasonal, such as winter clothes, patio furniture and tax services. Statistics Canada notes that "because of such seasonal factors, simply looking at monthly statistics may not be enough to reveal underlying trends."[263] Therefore, a number of data series published by the statistical agency (for example, retail sales) are adjusted to eliminate the effect of seasonal variations. As for the Survey of Household Spending, it collects information for a full calendar year.

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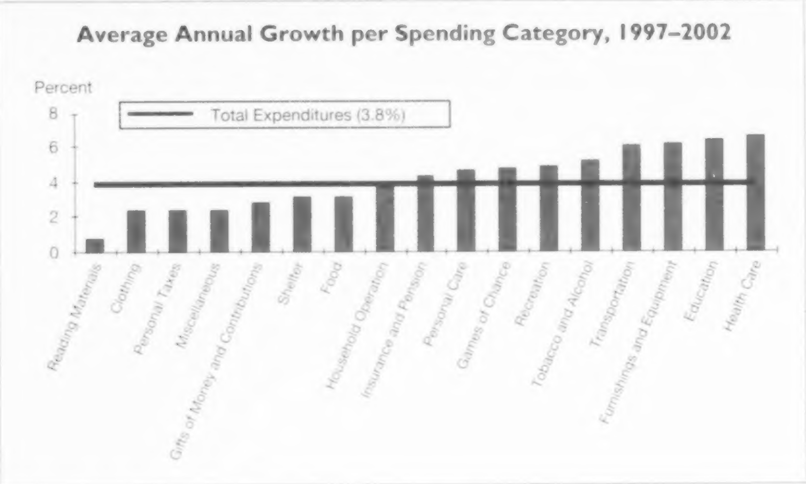
[263] "Frequently Asked Questions," Statistics Canada, Business Data, available at **http://commerce.statcan.ca/english/commerce/faq.cfm**

Comparing 1997 to 2002, the fastest growing household spending categories were health care and education (see Figure 9.2). Spending per household for these services increased at an average annual rate of 6.6 and 6.3 percent, respectively, compared to 3.8 percent for total expenditures. As out-of-pocket spending[264] rises in these sectors traditionally viewed as public services, it is likely that some Canadians are now dealing with more "market-oriented" issues. For example, consumers who want to supplement their children's education with private tutoring[265] must make choices about curriculum, resources and teachers, decisions that are largely out of their hands in the public school system, and for which they may be insufficiently informed. To what extent will consumers be comfortable using their traditional marketplace skills to ensure quality and seek redress in this traditionally institutional sector?

FIGURE 9.2



Average Annual Growth per Spending Category, 1997–2002

Source: Statistics Canada, Survey of Household Spending (1997, 2002).

Expenditures for household furnishings and equipment, as well as transportation, have also been rising at a healthy annual pace (6.1 percent each). Increasing expenditures on these items are typical during a period of economic growth (see text box).

From 1997 to 2002, growth in spending for some goods slowed, such as for reading materials and other printed matter. This category increased at an average annual rate of only 0.7 percent, compared to an average annual growth rate of 2.5 percent of the CPI component for reading items over this period. Some of

Interpreting changes in household expenditures over time

Changes in average expenditures can be due to three factors, with fluctuations in the prices of goods or services being a first obvious one. Second, averages (calculated across all households surveyed) may also be impacted when there is a change in the number of households that choose to spend on a particular item. Finally, households may simply choose over time to buy a different quantity or quality of products. All three sources of change should be considered when analyzing growth rates in expenditures. The sectoral analyses in Sections 9.4 to 9.6 focus on average expenditures and growth rates per reporting household, and compare relevant price index information, when possible. Changes in quality, however, are generally not explicitly addressed, as this variable is difficult to measure.

Some consumer behaviour is closely linked to the economic cycle

Market performance in the motor vehicle, home construction and real estate industries is linked to the general economy. Sales of automobiles and homes are, on average, higher when the economy is expanding and drop during recessions. This "cyclical" characteristic is generally associated with durable goods (for example, household furnishings and equipment), and also with some service sectors, such as hospitality, accommodations and airline travel. Expenditure trends in other sectors (e.g. education and utilities) are more closely tied to institutional factors such as government policies and regulations affecting prices and are less cyclical in nature. Spending for food as a whole is non-cyclical (even though certain foods, such as fruits and vegetables, can be very seasonal).

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[264] Survey of Household Spending data exclude reimbursed expenditures (i.e. work-related expenses or those covered by insurance).

[265] One U.S. private tutoring company that has franchises across Canada states that its Canadian enrollment has grown 60 percent over the last seven years. Reported in Alphonso 2004, A1.

this fall in expenditures may be related to technological changes and the opting for lower-priced or free electronic materials. For example, the proportion of households reporting no spending on reading materials increased from 11.6 percent in 1997 to 14.2 percent in 2002.

9.2 Spending by Income Quintile

While averages across all households provide a general overview of household spending patterns in Canada, the data are often difficult to interpret. Additional details are revealed by considering spending patterns across socio-demographic groups. This section considers spending patterns for lower versus higher income quintiles (the following section reviews expenditures by household types). Naturally, trends suggested in this section relate to the general changes in the financial situations of households, as presented in earlier chapters of this report.

While expenditures have grown for all household income quintiles since 1997, not surprisingly, spending levels are strongly influenced by income levels (see Figure 9.3). Consumer decisions have a very different meaning for households in the lowest income quintile who, in 2002, only spent about one sixth as much as those in the highest income quintile ($20 222 versus $120 227). Part of the difference can be attributed to the larger average household size in the highest income quintile. For example, Statistics Canada adjusted for differences in household size using 2001 SHS data and reported the ratio of total expenditures for the lowest to highest income quintiles was one to four (Statistics Canada 2003a, 16).

FIGURE 9.3

Average Expenditure per Household, by Income Quintile, 1997 versus 2002

	Average Expenditure per Household ($)		Average Annual Growth Rate (%)
	1997	2002	
Lowest Quintile	16 335	20 222	4.4
Second	29 519	35 625	3.8
Third	43 992	52 633	3.7
Fourth	60 894	71 741	3.3
Highest Quintile	98 793	120 227	4.0

Source: Statistics Canada, Survey of Household Spending (1997, 2002).

Spending by low-income households is mainly for necessities, with roughly 52 percent of total household spending in 2002 being for items in three categories: food, shelter and clothing (see Figure 9.4). This concentration on necessities decreases as household income rises, falling to 36 percent for households in the middle income quintile and 28 percent for those in the highest

Research opportunities

This section's overview of household spending trends used Statistics Canada's 17 predetermined main spending categories. In detailed spending tables, each of these categories is divided into a number of sub-components. Added to other sources, these data can enhance the analysis of consumer interactions within marketplace sectors. Initial examples of such work are given in Sections 9.4 to 9.6 in the form of sectoral analyses. Further research into detailed sectoral reviews, with an eye to both historical perspective and current consumer issues, should be encouraged and should come from all stakeholder groups.

The Family Expenditure Survey (FAMEX — the predecessor of the Survey of Household Spending) did not track spending in Canada's territories. The Survey of Household Spending recently began to do so, which could contribute significantly to the ability to discern consumer issues affecting these parts of the country.

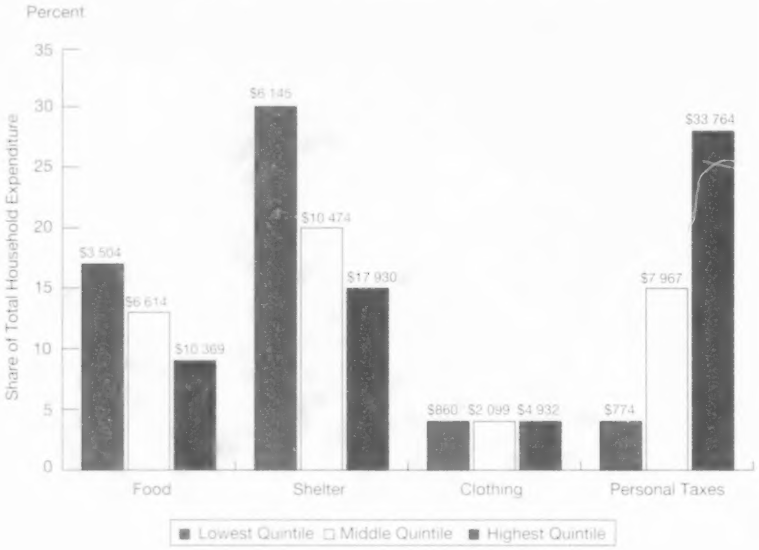
Solutions to the many technical barriers encountered in using Survey of Household Spending and FAMEX data, outlined in the Appendix, should also be sought.

quintile. The latter's spending for food, shelter and clothing is probably qualitatively different as well, since, in dollars, they spent about 3.2 times more than households in the lowest income quintile in 2002.

For low-income households, issues of access to, and prices of, essential services are very important. In the case of energy and food prices, for example, there is an obvious limit to how much a household can cut back on the quantities it buys to deal with increasing prices. Affordable housing is also of primary importance to these consumers, who may be under great financial stress in trying to meet basic expenditures.

FIGURE 9.4

Share of Total Household Expenditures in Leading Spending Categories and Average Expenditure per Household, by Household Income Quintiles, 2002



Note: Unlike the other household income quintiles, for those in the lowest quintile, clothing and personal taxes are not part of the four leading household expenditures. In 2002, for example, the lowest quintile's spending on shelter and food was instead followed by household operations ($1355), recreation ($999) and health care ($789).

Source: Statistics Canada, Survey of Household Spending (2002).

In 2002, personal taxes accounted for 28 percent of household expenditures for the highest quintile, and 4 percent for the lowest. In dollars, the ratio of taxes paid by the highest versus the lowest income quintile was 44:1 in 2002, compared to a ratio of 71:1 in 1997. This change is likely in part associated with the fact that more people in the lowest income quintile were in the paid labour force in

Research opportunities

More work aimed at understanding Canadian consumption patterns would likely contribute to the continuing research on poverty issues. Discussions about poverty bring differing values into questions which are subject to various debates. One question, for example, is whether concerns should centre on poor opportunities or poor outcomes:

> In the case where we are concerned with poor outcomes, it may be sensible to use a material outcome like consumption rather than a measure of the opportunity set like money income. This is especially true if people are able to consume things that they do not have the money to purchase. Two important examples are monetary and in-kind gifts from friends and families and in-kind transfers from government such as subsidized housing (Pendakur 2001, p. 178).

More research on these "consumption poverty" issues could also involve discussions about which expenditures should be part of a basic household consumption measure.

2002, compared to 1997. For households in the lowest income quintile, personal taxes have been by far the fastest growing spending category, with an average annual growth rate of 13.1 percent from 1997 to 2002. Alternatively, households in the highest income quintile experienced only a 2.7 percent average annual growth rate over the same period. The fastest growing spending category for high earners was games of chance (10.2 percent), with education a close second (9.7 percent).

9.3 Spending by Household Type

Spending by husband–wife households without children and senior husband–wife households (typically also without children at home) grew the fastest from 1997 to 2002, increasing at an average annual rate of 4.7 percent, compared to 3.8 percent across all households (see Figure 9.5). On the other hand, senior one-person households' spending increased the least over this period. In general, all one-person households witnessed less growth in terms of total expenditures. While lone-parent households saw rapid growth in their spending, they consistently spent the least of all multiperson households, on average.

FIGURE 9.5

Average Household Expenditure by Household Type, 1997 versus 2002

	1997 ($)	2002 ($)	1997–2002 Average Annual Growth Rate (%)
All Households	49 907	60 090	3.8
Total One-Person	27 710	32 069	3.0
Senior One-Person	20 230	22 447	2.1
Total Husband–Wife	60 432	74 052	4.1
Senior Husband–Wife	37 316	46 867	4.7
Husband–Wife Without Children	48 084	60 449	4.7
Husband–Wife With Children	67 342	82 365	4.1
Lone-Parent	36 087	44 991	4.5

Source: Statistics Canada, Survey of Household Spending (1997, 2002).

In 2002 average household expenditures were the highest for husband–wife households with children ($82 365), compared to all other household types considered in this report. This provided these households with significant discretionary spending power: with the exception of only three categories,[266] their average expenditure was the highest of the household types examined. Excluding food, shelter and personal taxes, husband–wife households with children spent more than $40 000 in 2002, compared to a little more than $30 000 for all households.

Husband–wife households with children are consequently more active consumers in a number of areas, including some relatively rapidly evolving sectors such as computer equipment and Internet services (see Figure 9.6). Since more than half of husband–wife households with children carry a mortgage,[267] they are also important consumers in the financial services sector. Furthermore, a number of sectors are, by their very natures, tied to the life cycle of this household type, including, at various stages, child care and education, for example. Therefore, while husband–wife households with children spend more in many sectors, their situation also requires greater effort to protect their consumer interests on a number of fronts at the same time, while, in many cases, trying to manage two full-time jobs.

FIGURE 9.6

Average Household Expenditure and Percentage of Reporting Households for Selected Detailed Spending Items, Husband–Wife Households With Children, 2002

	Average Household Expenditure ($)		Reporting Households (%)	
	Husband–Wife With Children	All Households	Husband–Wife With Children	All Households
Regular Mortgage Payments	5683	3409	56	37
Education	1857	926	75	44
Child-Care Expenses	665	287	28	12
Computer Equipment and Supplies	516	341	70	48
Internet Services	235	159	64	45

Source: Statistics Canada, Survey of Household Spending (2002).

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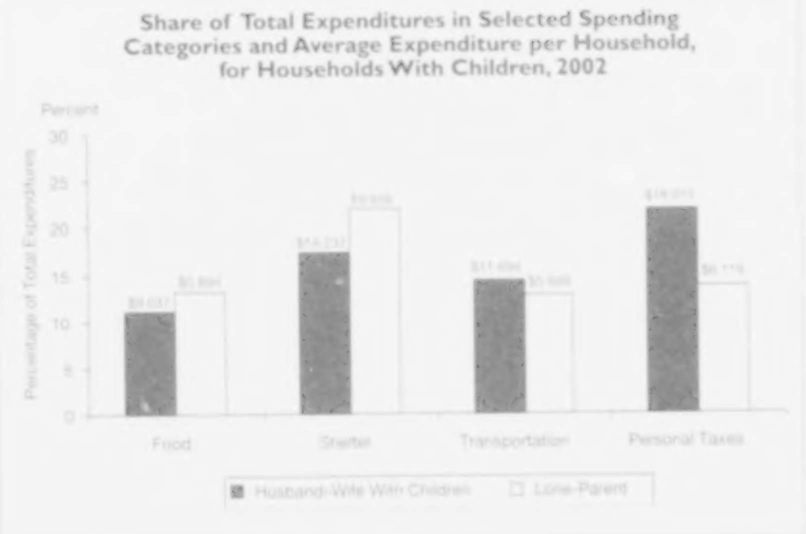
[266] [illegible]

[267] [illegible]

In dollar terms, lone-parent households' total expenditures ($44 991 in 2002) differ significantly from those of husband–wife households with children ($82 365).[268] Consequently, food and shelter costs represent a relatively greater source of stress for lone-parent households with respect to managing their money. Lone-parent households spent about $7500 less on shelter and food in 2002 than did husband–wife households with children (see Figure 9.7),[269] yet these two items accounted for 35 percent of their total expenditures. This compares to an average of only 28 percent for husband–wife households with children. As for transportation and personal taxes, expenditures for reporting lone-parent households were significantly less than those of husband–wife households with children.

FIGURE 9.7



Source: Statistics Canada, Survey of Household Spending (2002).

Examining additional sub-categories of expenditures provides further insight into the special circumstances of lone-parent households, and the potentially greater difficulties these consumers face as they try to address household needs while juggling resource and time constraints. Firstly, some lone-parent households may not be able to afford durable assets such as household appliances. Compared to husband–wife households with children, lone-parent households are less likely to have a washing machine or clothes dryer in their home.[270] Thus, 21.1 percent of lone-parent households reported (in 2002) spending on laundromats and self-service dry cleaning, compared to 15.3 percent of husband–wife households with children. Lone-parent households were also more likely to report spending for transportation by taxi (41.3 percent in 2002, compared to 26.2 percent of husband–wife households with children). Not surprisingly, lone-parent households are also less likely to report having a leased or owned vehicle.[271] The fact that lone-parent households are also more likely to rent their living quarters and to move in any given year[272] may further explain why they are somewhat more likely to report expenditures for household moving, storage and delivery services (9.1 percent in 2002, compared to 6.7 percent of husband–wife households with children).

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[268] Data in this chapter for husband–wife households with children refer to those households without additional persons. See details about spending data in the Appendix.

[269] Part of the difference is likely linked to the smaller average household size of lone-parent households and their consequently smaller shelter and food requirements.

[270] Possession of washing machines and clothes dryers was reported by 95.7 percent and 92.2 percent of husband–wife households with children compared to 80.7 percent and 78.9 percent of lone-parent households. See Statistics Canada 2003a.

Total expenditures for seniors living alone reached $22 447 in 2002. Like the average Canadian household, seniors living alone devote a majority of their spending to four main items: food, shelter, transportation and personal taxes. The main difference is that food and shelter represented 43 percent of expenditures by senior one-person households in 2002, the highest share of all household types considered in this chapter (see Figure 9.8).

Seniors living alone were the only household type to see an increase in their share of shelter expenditures, rising from 26 percent in 1997 to 28 percent in 2002. In dollar terms, their average annual shelter expenditure grew by $1041 between 1997 and 2002, $692 of which went towards more spending on rented living quarters.

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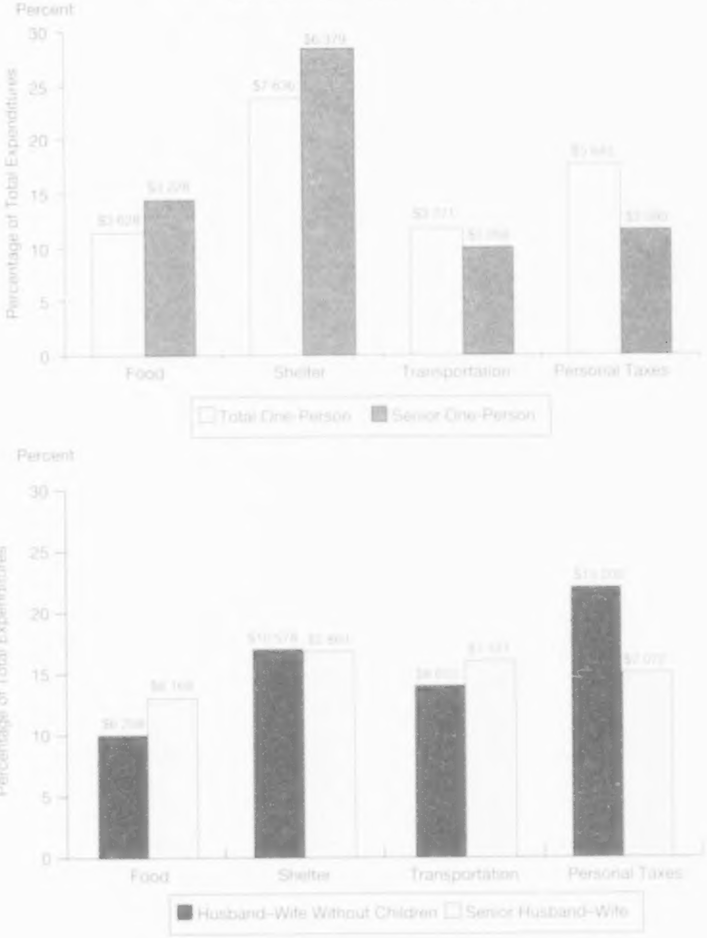
[271] In 2002, [illegible] percent of lone-parent households reported having a vehicle, compared to [illegible] percent of husband–wife households with children. Statistics Canada 2003i.

[272] In 2002, [illegible] percent of lone-parent households reported renting and [illegible] percent had moved in the year, compared to [illegible] percent and [illegible] percent, respectively, of husband–wife households with children. Statistics Canada 2003a.

FIGURE 9.8

Share of Total Expenditures in Selected Spending Categories and Average Expenditure per Household, for Senior Households, 2002



Source: Statistics Canada, Survey of Household Spending (2002).

Compared to seniors living alone, senior husband–wife households spend a smaller share (30 percent in 2002) of their total expenditures on food and shelter. Since they were much more likely to report the maintenance of a private vehicle (see Section 9.4), their average transportation expenditure is significantly higher than that of one-person senior households. Furthermore, a higher proportion of senior couples report expenditures for a number of discretionary items. These include, for example, clothing, alcoholic beverages, recreational equipment, travel accommodation, newspapers and cellular phone services (see Figure 9.9). While seniors living alone may be cutting down on these discretionary items as a way to manage within their lower incomes, senior couples appear to enjoy greater flexibility in their consumer decisions.

FIGURE 9.9

Average Household Expenditures and Percentage of Reporting Households for Selected Detailed Spending Items, Senior Households, 2002

	Average Household Expenditures ($)		Reporting Households (%)	
	Senior Husband–Wife	Senior One-Person	Senior Husband–Wife	Senior One-Person
Women's and Girl's Clothing	527	253	93	65
Men's and Boy's Clothing	354	60	89	20
Alcoholic Beverages	491	219	73	44
Recreation Equipment and Associated Services	454	160	77	49
Traveller Accommodation	417	102	39	16
Newspapers	177	107	82	59
Cellular Services	124	23	31	10

Source: Statistics Canada, Survey of Household Spending (2002).

Husband–wife households without children (of which about three quarters included a reference person aged 45 and over in the Survey of Household Spending)[273] spent an average of $60 449 in 2002, or about $13 500 more than senior husband–wife households. Higher personal taxes accounted for 45 percent of this difference, while shelter and transportation spending accounted for another 20 and 10 percent, respectively. Recreation expenditures also stand out; husband–wife households without children spent an average of $3508, compared to $2446 by senior couples. It will be interesting to see to what extent these spending patterns persist as the first wave of baby boomers move into their retirement years and potentially change the trends for the 65 and over age group, given that:

> with their higher levels of education, tomorrow's seniors might also be expected to boost museum and performing arts attendance, health club memberships. ... Accustomed to searching and comparing information from a variety of sources, tomorrow's seniors may also be in a better position to expand their choice of leisure and recreation opportunities (National Advisory Council on Aging 2000).

Seniors lead Canadians in charitable donations

[illegible]

Research opportunities

[illegible]

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[273] If both the husband and wife are aged 65 and over, their household would not be counted within this household type, but would instead be considered a senior husband–wife household.

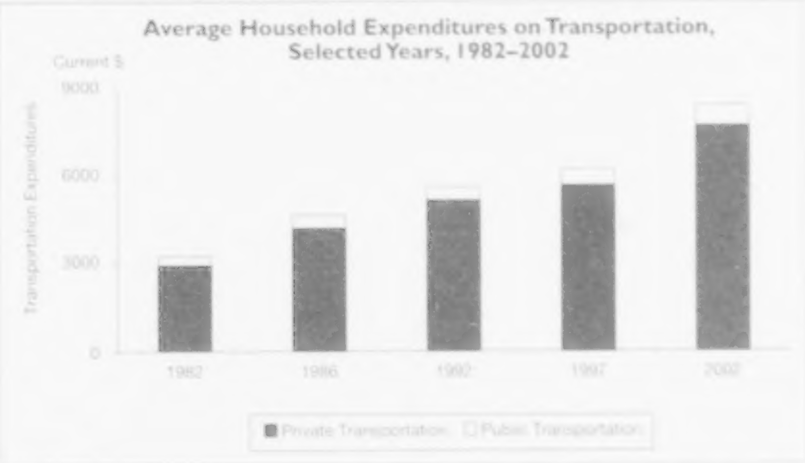
Sections 9.4 to 9.6 provide examples of sectoral analyses that could be further developed using more detailed data from Statistics Canada's main spending categories, in combination with other sources of research.

9.4 Consumer Spending on Transportation

Transportation costs are of significant importance to Canadian households. Average transportation expenditures per household were virtually the same as food expenditures in 1986, and have since then always exceeded the amount spent on food. Buying a vehicle, for example, often represents the second largest transaction for a number of consumers, after the purchase of a home.

In 2002, transportation for the average household represented costs of $8431, compared to $3271 in 1982, for an average annual growth rate of 4.8 percent (see Figure 9.10).[275] This compares to an average annual growth rate of 3.4 percent in the transportation component of the CPI. Private transportation has accounted for at least 90 percent of average transportation expenditures in the survey years available since 1982. In 2002, these costs were reported by 88 percent of households. In comparison, only 39 percent reported some spending on the category of city or commuter bus, subway, streetcar or commuter train. It is reported that "Canadians generally prefer the perceived convenience and freedom of their automobiles" where "some eighty percent of commuters travel to and from work by personal vehicle" (Sully 2003, 3).

FIGURE 9.10



Source: Statistics Canada, FAMEX (1982, 1986, 1992) and SHS (1997, 2002).

Vehicle use in Canada: Some unintended consequences

Canadians are avid users of private transportation. If sustainable transportation initiatives are ever to be implemented, changes in vehicle use will be required. Private automobiles/trucks account for a significant share of transportation operations and are associated with relatively high environmental costs. That all environmental costs are not reflected in the vehicle price favours an inefficient focus on private transportation that has significant distributional impacts.

> "... in car-oriented industrial countries, those who either cannot afford a car or are unable to operate one often have no access to jobs, schools, health centres and other important destinations. Children, the handicapped, the poor and the elderly are not only made less mobile by an auto-based system, but they also bear the brunt of its costs: the physically weak suffer the most from pollution, and the poor are those most often displaced by roads."[274]

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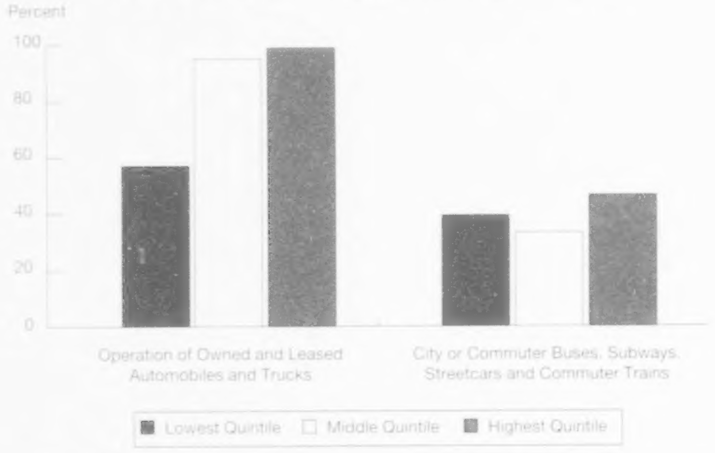
[274] Marcia D. Lowe, *Alternatives to the Automobile: Transport for Livable Cities* (Worldwatch Institute, 1990), quoted in Centre for Sustainable Transportation 2002, 15.

[275] Only minor adjustments were necessary to compare the FAMEX and SHS data for transportation expenditures (mainly consisting of regrouping items to form similar [illegible] at the transportation category level). These actions, however, [illegible] limitations of comparing different survey [illegible] (see the Appendix).

Spending on city and commuter transportation is not unique to lower income households. When considering those households reporting this spending in 2002, the average expenditure was $348 for the lowest income quintile versus $523 for the highest quintile. Furthermore, the proportion of reporting households is significant across all income quintiles. There is, however, an important difference for households in the middle and highest income quintiles, compared to those in the lowest: while some report spending on city/commuter transportation modes, practically all of the people in these higher quintiles report expenditures on operating a personal vehicle (see Figure 9.11). For them, public transportation appears to be chosen to complement owning or leasing a private vehicle.[276] In contrast, data for households in the lowest income quintile suggest that these households are more likely to solely or primarily rely on city/commuter public transportation, since only 57 percent also report vehicle operating costs. Any changes in public transit prices or number of routes serviced will therefore have a disproportionate impact on lower income people. As noted elsewhere in this report, lone-parent and one-person senior households, in particular, are less likely to report private transportation expenditures.

FIGURE 9.11

Percentage of Households Reporting Expenditures on Vehicle Operating Costs and City or Commuter Public Transportation, by Income Quintile, 2002



Source: Statistics Canada, SHS (2002).

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[276] Ownership is approximated in Figure 9.11 by the proportion of households reporting spending on vehicle operating costs.

The car leasing trend now appears to be winding down

The FAMEX and SHS data regarding vehicle purchases versus leasing (as measured by leasing fees) are not a perfect comparison. The reporting of purchases is specific to the survey year when the purchase occurred, whereas the leasing data are cumulative (i.e. the 2002 reporting percentage captures not only those households that began leasing in 2002, but also those that report fees for a vehicle lease signed in a previous year). According to industry analysis, the leasing trend has been fading, with only 27 percent of new cars being leased in 2001, compared to a peak of 40 percent in 1997 (Hougherty 2002, C1). It has been noted that "automobile manufacturers lost billions of dollars during the mid-1990s by overestimating cars' residual values in leasing contracts," and that subsequent downward adjustments in residual values consequently "made the monthly payments on leases more expensive" (Diekmeyer 2002, C2). Other interplaying trends in the automobile sector (see the text box on "0% financing") have likely also encouraged certain consumers to choose a purchase over leasing.

"0% financing": Another option for consumers to ponder

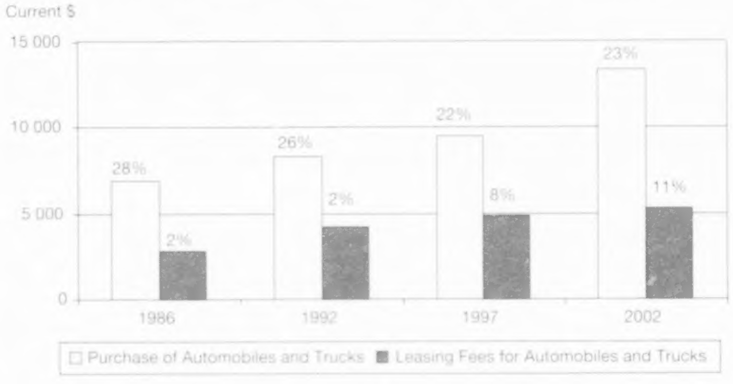
According to Statistics Canada, "The incentives offered by automakers, notably zero percent financing and cash-backs, appear to have induced consumers to buy more trucks" (note that "trucks" includes the highly popular minivans and sport-utility vehicles) (Statistics Canada 2003c, 2). These offers, however, can potentially be confusing to consumers. The ads for 0% financing, for example, sometimes state the rate in relation to the asking price of the vehicle, as opposed to what may be the current selling price. In fact, if the financing option affects the price, there may be circumstances in which the 0% option is actually more expensive for certain consumers. The factors a consumer must take into account include, for example, the amount made as a down payment, the financing term, and foregone discounts or incentives associated with a cash purchase. The legal disclosure of one company's ad has recognized this possibility: "By selecting the purchase finance offer, the consumer may be foregoing such discounts and incentives which may result in a higher effective interest rate."[278]

The shift from purchasing to leasing

The composition of what households buy under their private transportation budget has changed. More specifically, the likelihood of a household reporting the purchase of a vehicle (new or used) in recent survey years has been falling. This is attributable, in part, to a shift towards leasing (see Figure 9.12). In 2002, 11 percent of households reported fees related to leasing arrangements, up from 2 percent in 1986.[277] Price index information for leasing is unfortunately only available starting in 1998, and for the 1998–2002 period, its annual growth rate (0.3 percent) was very weak, as was the rate for vehicle purchases (0.04 percent).

FIGURE 9.12

Average Expenditure per Reporting Household and Percentage of Reporting Households, for the Purchase and Lease of a Vehicle,* Selected Years, 1986–2002



*The reporting of purchases is specific to the survey year when the purchase occurred, whereas leasing data are cumulative. See text box for further details.

Source: Statistics Canada, FAMEX (1986, 1992) and SHS (1997, 2002).

While the greater availability and promotion of car leasing has provided consumer benefits in terms of more choice, comparing the two options — leasing versus buying — is not necessarily straightforward. For one, decision making is likely made on different premises. Some consumers who lease see transportation as a service with annual fees, whereas a purchaser buys an asset (of decreasing value over time). Therefore, while leasing can allow consumers to access cars they otherwise may not be able to afford (based on monthly payments), this often results in the consumer having no equity at the end of the lease period. The details of leasing arrangements (buy-out conditions, mileage restrictions and associated penalties, etc.) may also significantly affect how expensive leasing is for a particular household. While consumers can find tools (such as online calculators) to assist them in comparing buying and leasing costs, factoring in unknowns (such as final mileage) and correctly identifying/interpreting the conditions stipulated within a leasing agreement can remain difficult. On the other hand, leasing does provide consumers with certain benefits, such as convenient access to vehicles that are always under warranty, and a relatively easy transfer from one new car to the other.

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[277] Data are not available for 1982, as both rental and leasing fees were combined into one category.

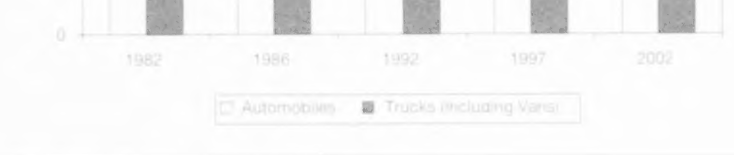
[278] See, for example, "Standard Disclosure Language for Motor Vehicle Advertisements," available at http://www.ganchevolds.com/disclaimer.htm

More trucks moving off the lot

The proportion of households reporting the purchase of trucks has been on the rise since 1982 (see Figure 9.13). This is in part explained by the fact that the "truck" classification includes minivans and sport-utility vehicles. The latter are two high-growth components of the automobile industry and have represented an increasing share of vehicle sales in Canada over the past two decades.[279] For the sub-group of households reporting a purchase,[280] the average amount spent on trucks grew at a faster rate than for automobiles from 1982 to 2002 (annual average of 7.7 versus 4.8 percent). The average unit value of these light trucks is higher than for passenger cars, reaching $32 886 in 2001 versus $24 370 for cars (Statistics Canada 2002c). The growing popularity of trucks raises questions around energy consumption and, consequently, emissions of greenhouse gases[281] as trucks are generally not as fuel efficient as cars.

FIGURE 9.13

Average Expenditure per Reporting Household and Percentage of Reporting Households, Purchase by Type of Vehicle, Selected Years, 1982–2002



Source: Statistics Canada, FAMEX (1982, 1986, 1992) and SHS (1997, 2002).

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[279] For example, the small car segment's share of total vehicle sales in Canada decreased from [illegible] percent in 1990 to 16.2 percent in 1996, and the share for intermediate sport-utility vehicles rose from [illegible] percent to [illegible] percent. (See Desmarais 2001.)

[280] The spending surveys include the purchase of both new and used vehicles.

[281] "The growth in transport sector emissions may be due … also to a shift in light-duty vehicle purchases from cars (LDGV) to trucks (LDGT) which, on average, emit 40% more GHGs (greenhouse gases) per kilometre." See Environment Canada 2003, 24-25.

Of the household types considered in this chapter, husband–wife households with children spend the most on private transportation. In 2002, their average household expenditure on private transportation reached $10 929 compared to $7740 across all household types. This reflects the fact that husband–wife households are more likely to have a vehicle — in fact, more than half of couples with children report having two or more vehicles in the household[282] (Statistics Canada 2003b). As a result, these households have been influencing automobile sector trends towards leasing arrangements and the rollout of minivans and other light trucks. As baby boomers age, husband–wife households without children are likely to become tomorrow's trend-setting group (see text box).

Gas prices and insurance premiums on the rise

Gasoline costs and vehicle insurance premiums are the two main components of vehicle operating costs (see Figure 9.14). From 1982 to 2002, gasoline expenditures by reporting households grew at an average annual rate of 2.7 percent, which is relatively higher than the corresponding rise in the gasoline price index (2.4 percent). Gasoline price increases were, however, stronger from 1997 to 2002 (annual average growth rate of 3.3 percent), and have directly impacted household expenditures. As for insurance premiums, the average reached $1384 per reporting household in 2002, almost triple the amount spent in 1982, for an average annual growth rate of 5.3 percent. The price index for vehicle insurance premiums similarly grew by a strong average of 5.2 percent per year between 1982 and 2002. The year-over-year rise was particularly strong in 2002, however, at 13.2 percent, and premium increases continued to gather much attention in 2003 (see text box).

Boomers: Changing the landscape of Canadian roads

In the 1980s, car manufacturers "correctly interpreted that the baby boomers' automotive needs were not well served by existing vehicles and launched the first modern-day compact van or as it has come to be called, the 'minivan'" (Desrosiers, undated). As this large cohort is now moving into its empty-nester years, other changes are likely to be seen on Canadian roads. For example, a baby-boom effect has been linked to the more than doubling of annual sales of motorcycles from 1996 to 2001, as the average age of buyers is about 44 (Vienneau 2003). Planned model launches and makeovers in the luxury car market are also influenced by an expected demand from baby boomers in their peak earning years (Palmer 2003). And while baby boomers' minivan years may be coming to an end, they are likely to prioritize the safety provided by a large heavy vehicle, and light trucks (such as four-by-fours) may therefore still remain a growing category.[283]

Vehicle insurance premiums: Painful times for consumers

Vehicle insurance premiums increased by an average of 8.4 percent from December 2002 to December 2003 (Statistics Canada 2004). This high annual growth rate actually represented the smallest 12-month increase since July 2002 and was relatively low compared, for example, to 22.1 percent in July 2003 (Statistics Canada 2003d). There have been indications that an increasing number of people have consequently chosen the risk of driving without insurance over paying the increased premiums.[284] This behaviour is occurring at a time when the vehicle theft rate in Canada is higher than in the United States, and growing (Statistics Canada 2003e). Other coping strategies included the New Brunswick Insurance Brokers Association "encouraging clients not to file claims as a way to keep premiums under control" (CBC News Online 2003b). A number of provincial governments intervened over the course of 2003 with various initiatives and reform proposals to reduce costs for drivers (Government of Ontario 2004). A debate has furthermore been opened up as to the comparative advantages of a public versus private insurance regime.[285]

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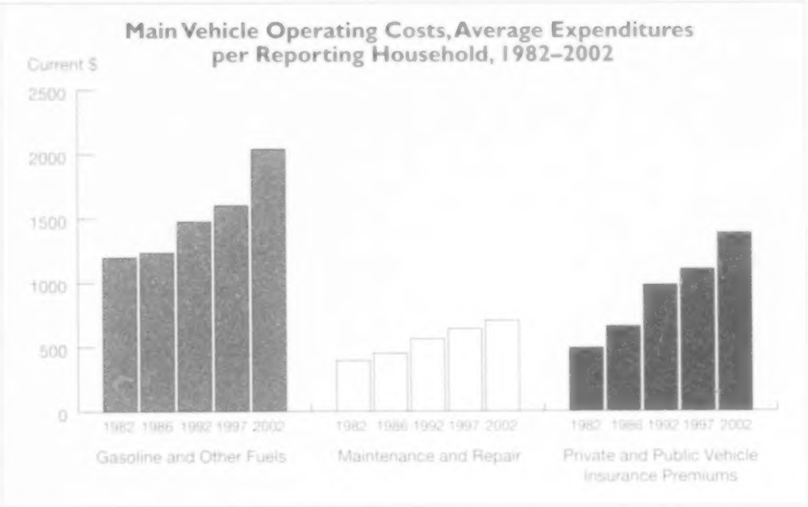
[282] Based on 2001 data from the SHS, 57 percent of couples with children reported that their household had two or more vehicles, compared to only 36 percent across all households.

[283] David Foot formulated this prediction, as reported in Baron 2003.

[284] See CBC News Online 2003a, which reports statistics from the Insurance Bureau of Canada indicating that 10 percent of Alberta drivers are uninsured.

[285] See, for example, Dan Westell, "Insurance: Private vs Public," *CBC News Online*, October 15, 2003, available at **http://www.cbc.ca/news/background/insurance/privatevspublic.html**

FIGURE 9.14



Source: Statistics Canada, FAMEX (1982, 1986, 1992) and SHS (1997, 2002).

Relative to gasoline and insurance premiums, the average expenditure on vehicle maintenance and repair[286] for reporting households is small, at $703 in 2002. These expenditures affect a great number of consumers, however, as most car drivers visit a garage in a given year: results from a survey on car repairs of more than 22 000 members of the Canadian Automobile Association suggest that only 25 percent of respondents did not have any repair work done in 2002 (Canadian Automobile Association 2003).

Consumers face particular challenges in ensuring value for their money when requiring services such as car repairs. Many consumers have limited knowledge in this area, and may be unable to assess the work that is presented as required. Certain mechanics will unfortunately abuse the power that asymmetrical information gives them, particularly in the context of commission-based compensation. In one of its auto repair investigations, the Automobile Protection Association submitted a vehicle to car repair shops with the problem of an occasional failure to start. While a battery cable had deliberately been loosened to cause the problem, the cost to check the vehicle ranged from zero to an incredible $1240 (Automobile Protection Association 2003). This study's results lead to a disconcerting conclusion: "Fifty-one percent — that's the likelihood of paying for unnecessary repairs" (Automobile Protection Association 2003). Technological trends in the automotive sector may also exacerbate these issues in future (see text box).

The technological bond between consumers and auto dealers

Technological advances have significantly changed vehicle maintenance and repair. While many improvements have brought consumer benefits in terms of reliability and durability, the occurrence of electronic problems is raising some questions. According to a U.S. consulting firm in the automotive sector, electronics were the source of 14 percent of complaints by new car owners in 2002, up from 8 percent in 1997 (O'Donnell 2003). The U.S. president of Certified Car Care notes that "engine lights come on so easily, and many times they can only be reset by a dealer even if there is nothing wrong" (O'Donnell 2003). The increasing dependence on dealers' repair services is raising some competition concerns.

> It is estimated that 70 to 75 percent of all vehicle repairs in Canada are performed by Independent Repair Facilities (IRFs), with the remainder going to dealerships. Consumers who use IRFs to service and repair their vehicles may be unaware that there has been an emerging issue with respect to the access to information related to the technology that is used in servicing and repairing vehicles. This technology is on-board diagnostic systems or OBD systems. (...) Making appropriate use of OBD technology comes at a significant cost: the repair facility must invest in the appropriate equipment and ongoing training for its technicians. Without access to the codes, independent shops may be unable to diagnose the vehicles, thereby restricting the consumer's freedom to choose where to have their vehicle repaired (Alberta Motor Association 2003).

There hence appears to be a risk that the power of information will move even further away from the consumer and shift from the mechanics to the car manufacturers, as car repairs become increasingly dependent on computer diagnostics. This shift could eventually raise market entry and competition issues and resulting consumer issues.

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[286] Household spending data provide information on maintenance and repair for both owned and leased vehicles, and separate from tires, batteries and other automotive parts.

Air travel

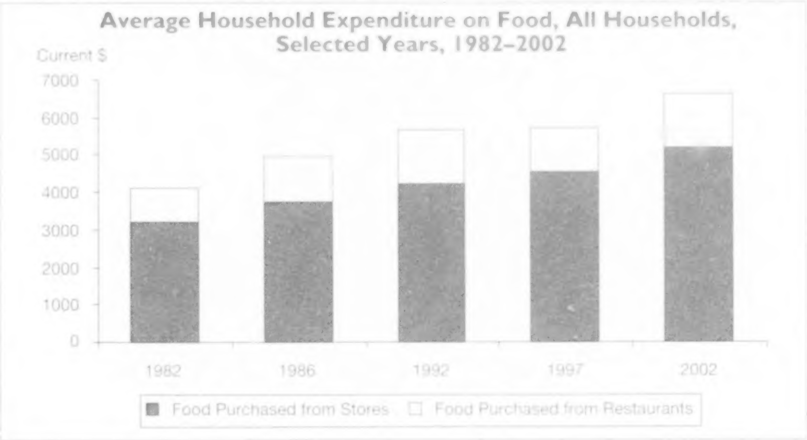
The average expenditure on air transportation reached $1715 per reporting household in 2002, an average annual growth rate of 4.0 percent since 1982. This compares to an average annual increase of 6.6 percent in the air transportation index over the same period. The proportion of households reporting air transportation expenditures (21 percent in 2002) has been somewhat cyclical with the domestic economy, and affected by international events. Indeed, post-September 11, 2001, air passenger traffic levels fell from their 2000 peak (Transport Canada 2002). At the same time, low-fare airlines have expanded in Canada. This context, combined with regulatory changes and the sector's use of the Internet, has favoured relatively intense competition for consumers, and the deployment of various advertising strategies (see text box).

Consumers choosing to fly report a number of problems. The Air Travel Complaints Commissioner reports that the majority of complaint issues[287] in 2001 and 2002 concerned quality of service (attitude of staff, lack of communications, line-ups, etc.) and scheduling (delays, changes and flight cancellation). However, the total number of complaint issues has dropped from 5171 in the first year (2001) to only 2204 in 2002.[288]

9.5 Consumer Spending on Food

Food is a major budget item for Canadian consumers, representing the fourth largest household expenditure. In 2002, the average household expenditure on food totalled $6684, compared to $4131 in 1982 (see Figure 9.15). This represents an average annual growth rate of 2.4 percent, compared to 2.7 percent for the corresponding food component of the CPI. As noted in the Appendix, adjusted 1982 spending data suggest that there has been a fall in food's share of household expenditures.

FIGURE 9.15



Average Household Expenditure on Food, All Households, Selected Years, 1982–2002

Source: Statistics Canada, FAMEX (1982, 1986, 1992) and SHS (1997, 2002).

When the advertised price does not tell the full story

Canadians' interactions with the air travel sector have been significantly affected by the changing regulatory environment, the use of the Internet and, more recently, the events of September 11, 2001. While the Internet has liberalized consumers' access to travel information, it has also exposed them more directly to the airlines' rather complex and changing price schedules. In addition, ticket prices are today affected by "the introduction of, or an increase in, a number of carrier-imposed surcharges designed to help airlines deal with the difficult financial situation" (Canadian Transportation Agency 2003, 8). A consumer group has argued that some ads are misleading to consumers: for example, the ticket price for a Montreal-Halifax ticket advertised at $64 actually jumped by 79 percent when required fees and surcharges were added (Option consommateurs 2003). This trend has also been noted by the Air Travel Complaints Commissioner: "Too often, the fare of a lifetime in a splashy advertisement turns out to be either the same price or even higher than the carrier's regular fares or a competitor's price once undisclosed taxes and fees are added" (Canadian Transportation Agency 2002, 26).

Research opportunities

Due to the sheer amount of household expenditures involved, consumer transportation issues are particularly deserving of attention. Spending patterns for private transportation and related marketplace incentives need to be considered in light of climate change issues and the impact of, for example, full-cost environmental pricing. Unfortunately, as problems with fraud continue in the used car and vehicle repair sectors, resources will likely continue to be required for those areas. In addition, when various factors raise the competitive pressures within a sector, it appears necessary to carefully examine emerging advertising practices. Finally, further work on transportation trends by socio-demographic group would provide a better understanding of some Canadians' mobility and access issues. For lower income households, for example, it would be particularly important to analyze the impacts of changes in the supply of public transportation on access to employment opportunities, consumer choice and essential services.

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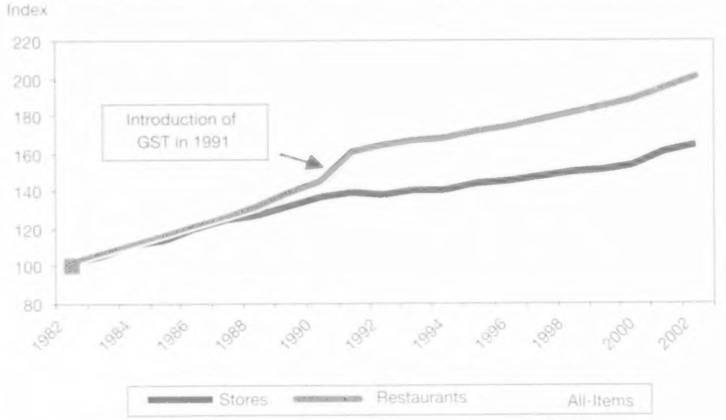
[287] Note that a single complaint may contain more than one issue.

[288] Reported by the Canadian Transportation Agency: *Air Travel Complaints Commissioner's Report: July 2002 to December 2002*, available at **http://www.cta-otc.gc.ca/cta-otc2000/report-rapport/2003/findings5_e.html#1**

In 2002, more than three quarters of the average household food expenditure went towards purchases from stores (as opposed to restaurants). This spending has increased by an average annual rate of 2.4 percent since 1982, slightly below the 2.5 percent rise in the stores component of the food price index. Growth in the price index for food purchased from stores was hence lower than the inflation rate (3.0 percent). Consumers are notably benefiting from "advances in technology and productivity improvements [that] have led to a sustained, long-term decline in most commodity prices" (Federal, Provincial and Territorial Ministers of Agriculture 2002, 2). The food price index for purchases from stores has also grown less than that for restaurants (3.5 percent), which was strongly affected in 1991 by the introduction of the goods and services tax (GST) (see Figure 9.16). As a proportion of the average household food expenditure, restaurants indeed experienced a decline in the 1990s, from 26 percent in 1992 to 22 percent in 2002. The downward trend in the food service industry in the 1990s has been linked not only to the introduction of the GST, but also the recession (Little and Bennett 1999).

FIGURE 9.16

Consumer Price Index, for All-Items, Food Purchased from Stores, and Food Purchased from Restaurants, 1982–2002



Source: Office of Consumer Affairs calculations based on Statistics Canada, CANSIM, series v737346, v737417 and v737344.

Incomes and the composition of food spending

Expenditures for food purchased from stores are smaller in absolute dollars for households in the lower income quintiles. This is due in part to these groups' smaller average household size.[289] Food purchases from stores represent, however, a much higher proportion of food spending by lower income households (see Figure 9.17). A Quebec study of weekly supermarket coupons noted concerns that rebates tend to be below average in a week when social assistance benefits are paid out (Collectif pour l'équité des bons rabais en alimentation 2001). In addition, despite weak price growth for food purchased from stores, costs may be rising more significantly for a nutritious food basket (see text box). In qualitative consumer research, people on lower incomes have indeed noted the cost of food as a barrier to healthy eating. In the words of one participant: "I'm always looking for items on sale, and these tend to be the processed or packaged foods" (Health Canada 2003, 6). It appears, then, that certain lower income households can face challenges in their attempts to obtain value, in terms of both money and nutrition, for their food dollars.

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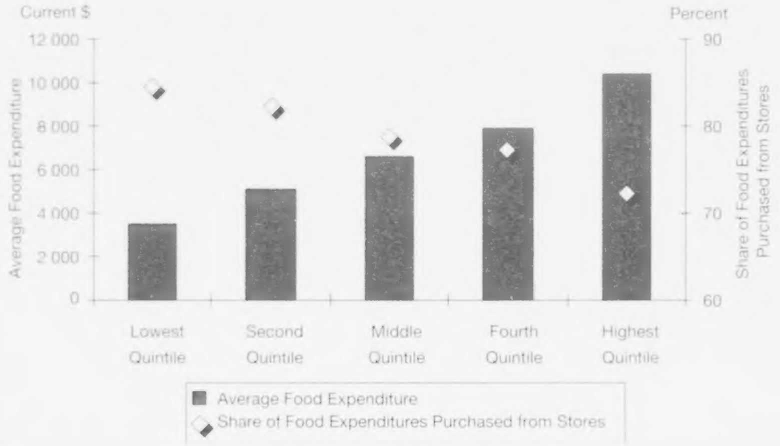
[289] According to 2002 data from the Survey of Household Spending, the average household size of the lowest income quintile is 1.53 persons. This increases to 3.48 persons for the highest income quintile.

Assessing the cost of eating well

The Nutritious Food Basket (NFB) determines the cost of foods that "represent a nutritional diet which is consistent with the food purchases of ordinary Canadian households" (Hatfield 2002, 3). It is based on average population-level food consumption patterns. As such, it contains healthy foods that people like to eat — "it is neither an 'ideal diet' nor the cheapest diet that meets nutritional requirements" (Hatfield 2002, 3). It has been used in Canada for nearly half a century. A review of the measure has concluded that it "appears to be an effective tool to monitor one of the key determinants of individual food security, food affordability" (Nathoo and Shoveller 2003, 67). It is not calculated on a national level, but rather for different regions. For example, the average weekly cost of the NFB for a family of four in Edmonton is reported to have averaged $132.10 in 2002, a 12.5-percent increase since 1999 (Government of Alberta 1999 and 2002). This compares to an 8.6 percent rise in the Consumer Price Index component of food purchased from stores over the same period.

FIGURE 9.17

Average Food Expenditure and Share of Food Expenditures Purchased from Stores, by Income Quintile, 2002



Source: Statistics Canada, SHS (2002).

Time constraints have changed food consumption patterns

Time constraints are impacting the food consumption patterns of today's households. For one, the average meal preparation time is now reportedly 15 to 30 minutes versus 45 minutes 10 years ago (Poirier 2002). In addition, the share of the food dollar spent in stores on "other foods, materials and food preparation"[290] rose from about $0.06 in 1982 to almost $0.10 in 2001 (Statistics Canada 2003a). Only one quarter of Canadian families now eat a homemade meal from scratch every day, compared to half of families in 1992 (Muhtadie 2003). Households' reliance on processed and store-prepared foods is hence a growing trend.

According to qualitative consumer research initiated by Health Canada, "the single most frequently mentioned obstacle to healthy eating was lack of time" (Health Canada, 2003a, 5). When time is compromised, "consequences include eating more pre-made or convenience foods, getting fast-food or take-out, or even missing meals" (Health Canada 2003a, 5). One recent U.S. study estimated that, on any given day, one in every three children eats a fast-food meal (Picard 2004). Consequently, these meals now account for up to 38 percent of a child's caloric intake, compared to less than 2 percent in 1970 (Picard 2004). In Canada, a full 7 percent of total food expenditures by the average household in 2001 went to purchases at fast-food restaurants during a local day trip (Statistics Canada 2003a). This is up from 5.5 percent in 1982. For couple households with children and for lone parents, the proportion in 2001 was slightly higher, at 7.5 percent and 8.7 percent, respectively. This growing reliance on fast and convenience foods, which "are too often super-sized and not nutritionally balanced" (Children's Hospital of Eastern Ontario 2002), may be contributing to childhood obesity. From 1981 to 1996, obesity rates in Canada almost tripled for boys 7 to 13 years of age (5.0 to 13.5 percent) and more than doubled for girls (5.0 to 11.8 percent) (CBC 2000).

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[290] Includes items such as frozen pre-cooked dinners, baked goods, peanut butter, potato chips, soups and baby food.

Considerations about healthy eating are generalized, however, and span all age groups:

> Increasingly, food is being positioned as a wellness product by industry. This trend may have originated in response to the baby boomers who are seeking to delay the aging process (Ontario Food Processing Research and Services Committee 2003, 7).

To help prevent certain health conditions, an increasing number of consumers are turning, for example, to nutraceutical/functional foods.[291] Furthermore, baby boomers (as well as health-conscious younger generations) are identified as driving the organic food market (Cunningham 2001).

While various choices are offered in the marketplace to meet consumers' preferences and interests, analyzing and assessing the related large volume of information can be difficult. One concern is that "consumers get their information from the media, but they often don't get the whole story and interpretation is left to the consumer" (Rostoks 2004, 38). Confusion can be all the more likely when the conclusions being reported change over time. In fact, more than half (56 percent) of Canadians in 2001 reported being tired of getting conflicting messages about how they should eat to be healthy (CTV News 2002).

Furthermore, certain industry players appear to be voluntarily creating information challenges for consumers. In 2003, the Canadian Food Inspection Agency launched an investigation into sports nutrition products such as energy bars, drinks and weight loss preparations. It found that "claims for health and performance benefits which cannot be substantiated are … [one] form of fraud common among these products" (Waldie 2003).

Setting labelling requirements to help Canadians make informed food choices

In an effort to help Canadians focus on healthy eating, Health Canada introduced new mandatory nutrition labelling on January 1, 2003 (Health Canada 2003b). The regulation will gradually replace a voluntary model, and require pre-packaged food manufacturers to declare information such as the amount of fat, and saturated and trans fats. For the first time in Canada, diet-related health claims pertaining to reducing the risk of heart disease, cancer, osteoporosis and high blood pressure will also be permitted. For these chronic diseases, diet plays a major role, and their prevalence and severity increase with age.

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[291] Nutraceuticals are products isolated or purified from foods that have a demonstrated health benefit when used as a dietary supplement (for example, flax oil capsules). Functional foods are food products consumed as part of a regular diet that have demonstrated physiological benefits and / or reduce the risk of chronic disease (for example, milk containing higher levels of calcium).

Consumer choice, food safety and biotechnology raise important research issues

New food product introductions have recently been reported as declining in the U.S., reaching 9145 in 2000 compared to a peak of 16 863 in 1995 (Harris 2002). One explanation to this relative decline is that "consolidation in food manufacturing has reduced the number of companies offering new products" (Harris 2002, 25). In addition, "as retailers devote more shelf space to their own private label products, the amount of available space for new products decreases" (Harris 2002, 25). These trends, and others such as slotting fees and promotion allowances,[292] raise questions about how consumers' food choices will evolve in the long term. These trends are also relevant to the Canadian grocery industry, in which mergers increased over the last decade. The Competition Bureau estimates that "the four largest supermarket chains now account for approximately 75% of total Canadian food store sales" (Competition Bureau 2002, 1). Consequently:

> In the face of consolidation and vertical integration, there has been growing concern by industry participants over the increased potential for abuse of market dominance… the Bureau continues to vigorously examine mergers and complaints of alleged anti-competitive conduct related to this important industry sector (Competition Bureau 2002, 1).

In 2001, results from an eight-country survey (that included Canada) position food safety concerns as follows:

> Food safety is considered to be as serious an issue as poverty, unemployment, health care, and education (GlobeScan Inc. 2001, 10).

Surveys show that food safety is in fact a high priority for almost 80 percent of Canadians (Agriculture and Agri-Food Canada 2002). As described by the president of a leading supermarket chain, "Food safety is the Achilles' heel of our industry" (Strauss 2004, B2). Enhanced enforcement measures have been undertaken by governments in light of recent food safety incidents (CBC 2003c). Post-production quality controls such as irradiation are another potential way to deal with these processing issues, but they are a source of consumer concern.[293] Various actors in the food industry are hence recognizing the scope of the challenges that lie ahead, and food safety will remain an important area for consumer research.

Food biotechnology is another important consumer concern. Although Canada is the world's third largest grower of genetically modified (GM) crops and there are more than 60 GM foods approved for sale,[294] Canadians have strong reservations about GM foods. A 2003 national survey concluded that "Canadians are largely supportive of many of the uses of medical biotechnology, but are increasingly cautious about genetically modified foods appearing on grocery shelves … while a slight majority of Canadians (52 percent) remain supportive, the level of support of those saying GM foods should be encouraged has declined from 67 percent since 1997" (University of Calgary 2003).

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[292] "Slotting fees are monies paid to retailers by manufacturers to secure shelf space. Promotion allowances are concessions offered by manufacturers to entice retailers to stock specific branded products." Source: Harris 2002, p. 25.

[293] "In Spring 2000, a National Angus Reid Poll, commissioned by Agriculture and Agri-Food Canada, revealed that when given a brief description of the process … 42% thought that it was a bad idea." See Health Canada 2002.

[294] "Frequently Asked Questions — Biotechnology and Genetically Modified Foods, Part 2: Safety Assessment of Genetically Modified Foods," available at **www.hc-sc.gc.ca/food-aliment/mh-dm/ofb-bba/nfi-ani/e_faq_2.html**

Potential benefits of the different uses of GM plants include reduced use of pesticides[295] and herbicides, more nutritious foods, and increased crop productivity. Among the claimed potential risks, however, are the long-term health effects, mixing of GM and non-GM plants into the food processing system[296] and into the natural environment. The cost–benefit analysis is complex as a result, and difficult for consumers to fully assess. A voluntary code for the labelling of GM food was launched in 2003; its effect in the marketplace is not yet known (Government of Canada 2003). It is evident that food biotechnology is one area requiring ongoing research efforts, especially in terms of the communication of information to consumers.

9.6 Consumer Spending on Health Care

The proportion of households reporting out-of-pocket health care expenditures over the past two decades has consistently included practically all households (98 percent in 2002). The average health care expenditures per household have grown at a relatively fast pace, with an average annual growth rate of 5.7 percent from 1982 to 2002 (see Figure 9.18). Expenditures have risen even more quickly recently (6.6 percent from 1997 to 2002). At an average of $1590 in 2002, household spending on health care still represents a relatively small proportion of total expenditures (2.6 percent); however, since growth in health care spending outpaced total expenditures, this share appears to be growing (1.9 percent with 1982 adjusted data; see the Appendix).

Research opportunities

Canadian households have a number of protection and information needs related to food consumption patterns. There are safety concerns about today's farming and processing trends, nutrition issues about convenience and fast foods, and questions about technologies such as genetic modification and food irradiation. Ethnic diversity is another trend that could be highlighted, since it affects the demand for food and, consequently, consumer safety and information requirements. Further consumer research will be required to advance the important risk assessments associated with the food sector. On many of these issues, work will need to encompass a broader number of perspectives (such as ethics and social well-being) than typical of many other consumer issues. Another important challenge will be the dissemination of consumer information, which must strike a delicate balance between transparency and the need to provide ever more complex information.

What constitutes a household health care expenditure?

In the context of Statistics Canada's household spending surveys, out-of-pocket health care expenditures cover all direct health care expenses. This includes amounts not covered by insurance such as exclusions, deductibles and expense over limits (Chaplin and Earl 2000). Payments for which respondents are reimbursed are therefore not included as out-of-pocket expenses. The main categories of health care expenditures reviewed in this section are as follows:

- prescribed medicinal and pharmaceutical products;
- other medicines and pharmaceutical products;
- eye-care goods and services;
- dental services; and
- health insurance premiums.[297]

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[295] For example, the use of GM plants resistant to insects [illegible] cotton production in 2000 led to a more than 12 percent reduction in chemical pesticide use. Source: Fortin 2001.

[296] For example, in the 2000 case involving StarLink (a GM corn variety approved for livestock feed but not for human consumption), the product's developer "indicated that 12% of the company's 9 million bushels of StarLink have already been harvested and sold, apparently into the human food stream" (Source: Clark 2001).

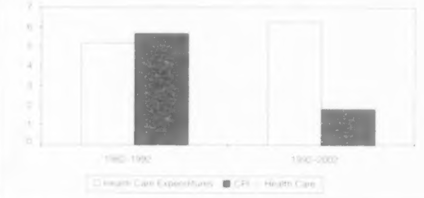
Difficulties in adjusting health care expenditure data for price growth

Based on the trends presented in Figure 9.19, it would appear that growth in the average health care expenditure was particularly strong, in real terms, over the 1990s compared to the total household expenditures. As underscored, however, in the text box on page 165, there are limitations in how detailed spending data can be adjusted using CPI data.

This is true for health care. The health care component of the CPI does not include health insurance premiums. Since insurance premiums are the largest component of average health care expenditures as reported in FAMEX and SHS data, the CPI's health care index is not a consistently usable deflator. For certain sub-categories of health care expenditures, however, CPI information is provided as a general indication of price trends.

FIGURE 9.19

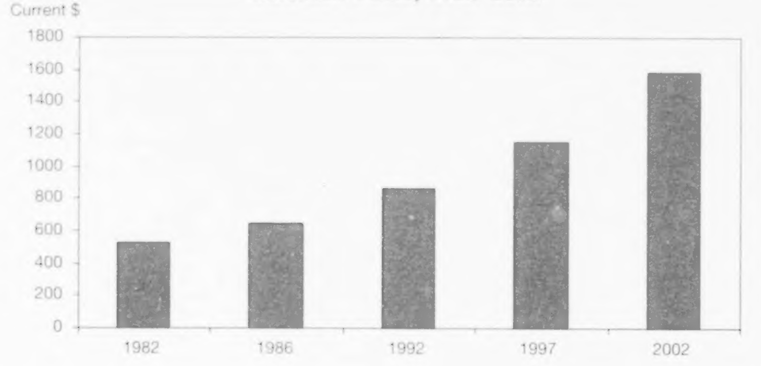
Average Annual Growth Rate for Health Care Expenditures and Health Care Component of Consumer Price Index, Selected Periods, 1982–2002



Source: Statistics Canada, FAMEX (1982, 1992) and SHS (2002), and CANSIM series v737544.

FIGURE 9.18

Average Household Expenditure on Health Care, All Households, Selected Years, 1982–2002



Source: Statistics Canada, FAMEX (1982, 1986, 1992) and SHS (1997, 2002).

The largest share of the average household's health care spending is allocated to health insurance premiums (34 percent in 2002) (see Figure 9.20). In dollar terms, this represented an average household expenditure of $539. The second most important out-of-pocket health care expenditure is spending on medicinal and pharmaceutical products (25 percent, prescribed and over-the-counter combined). This is followed by spending on dental services (18 percent). These three items combined represent more than three quarters of total out-of-pocket health care expenditures.

FIGURE 9.20

Composition of Average Household Health Care Expenditures, Selected Years, 1982–2002

	1982 (%)	1986 (%)	1992 (%)	1997 (%)	2002 (%)
Prescribed Medicinal and Pharmaceutical Products	12	12	15	17	16
Other Medicines and Pharmaceutical Products	7	8	8	10	9
Eye-Care Goods and Services	12	13	13	13	11
Dental Services	23	25	22	19	18
Health Insurance Premiums	36	34	31	28	34
Health Care Supplies and Other Health Care Goods and Services	10	9	12	12	12
Average Health Care Expenditures	**$522**	**$648**	**$867**	**$1156**	**$1590**

Source: Statistics Canada, FAMEX (1982, 1986, 1992) and SHS (1997, 2002).

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[297] "The distinction between premiums for private health insurance plans and publicly funded (provincial) plans is not always clear to respondents. … For this reason, more confidence can be placed in the overall estimate for health insurance premiums than in the components: public hospital, medical and drug plans and private health insurance plans." Source: Statistics Canada 2003f, 18.

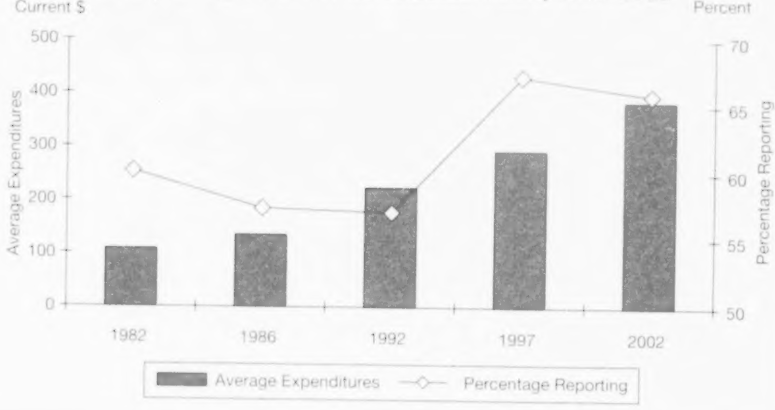
Household spending on medicinal and pharmaceutical products — particularly by prescription — is increasing

Expenditures on prescribed drugs now account for 80 percent of total[298] drug spending in Canada, up from 70 percent in 1990 (Canadian Institute for Health Information 2003a). Over the last two decades, Canadian households' average expenditure on medicinal and pharmaceutical products increased at a rapid average annual rate of 7.1 percent. This growth was driven in part by the fact that households have increasingly reported purchasing prescribed medicinal and pharmaceutical products (see Figure 9.21).[299] When adjusting for this growth, spending on prescribed products per reporting household grew from $107 in 1982 to $383 in 2002. This represents an average annual growth rate of 6.6 percent, well above the rate of 3.6 percent for the prescribed medicines component of the CPI from 1985–2002.[300] Commenting on the 1978 to 1998 increase (in real terms) in expenditures on prescribed products per reporting household, a Statistics Canada report suggests that:

> In the case of prescriptions, households may either be buying more, or are paying a larger share of the costs. Some benefit plans have introduced greater cost-sharing (through deductibles, co-insurance or co-payments) for prescriptions; some may encourage the use of generic drugs. [Other factors could include] the growing role of drug treatment, as well as higher real costs for new prescription medications (Chaplin and Earl 2000, 63).

FIGURE 9.21

Prescribed Medicinal and Pharmaceutical Products, Average Household Expenditures and Percentage of Reporting Households, Selected Years, 1982–2002



Source: Statistics Canada, FAMEX (1982, 1986, 1992) and SHS (1997, 2002).

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[298] This includes public, private insurance and out-of-pocket expenditures.

[299] Differences between the FAMEX and Survey of Household Spending in Figure 9.21 cannot entirely explain the rise between 1992 and 1997 given that, according to 1996 FAMEX data, the proportion had then already reached 63 percent.

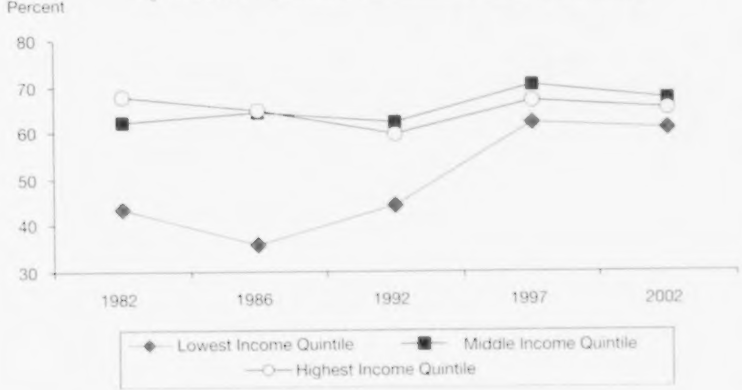
[300] Statistics Canada, CANSIM, series v737347 data are only available starting in 1985.

This growing role of drug treatment, and the "trend over the last decade towards earlier release from hospitals" (Canadian Institute of Actuaries 2002, 1), may prove to be increasingly challenging for certain people. For one, households in the lowest income quintile are today much more likely to report out-of-pocket spending on prescribed medicinal and pharmaceutical products. The percentage of reporting households jumped from 44 percent in 1982 to 61 percent in 2002 for the lowest income quintile, but varied little for the middle and highest quintiles (see Figure 9.22). Furthermore, the average expenditure per reporting household is higher for those in the lowest income quintile ($379 in 2002) than those in the highest quintile ($330).[301] For some, pressures from the cost of prescribed products may be difficult to manage. According to a 2001 study:

> Thirteen percent of Canadians said they had not filled a prescription in the past year because of the cost. Those with below-average income were significantly more likely than Canadians with above-average income to report forgoing medications because of the expense (22 percent vs. 7 percent) (The Commonwealth Fund 2001, 2).

FIGURE 9.22

Percentage of Households Reporting Expenditures for Prescribed Medicinal and Pharmaceutical Products, by Income Quintile, Selected Years, 1982–2002



Source: Statistics Canada, FAMEX (1982, 1986, 1992) and SHS (1997, 2002).

In addition, while growth in spending for prescribed products was significant from 1982 to 2002 across all households, it was relatively higher for senior households. Multiple medications are perhaps a contributing factor, as for example, an increasing proportion of seniors report using five or more drugs, including prescribed and non-prescribed drugs (Canadian Institute for Health Information 2002). Even more striking, however, is the change in percentage of households reporting expenditures on prescribed medicinal and pharmaceutical products (see Figure 9.23). For senior one-person households, it had grown to be 2.5 times higher in 2002 (at 75 percent) than in 1982 (when it was only 29 percent). For senior husband–wife households, it was almost twice as high in 2002 (81 percent) as in 1982 (43 percent). To the extent that these trends are linked to provincial/territorial cost-sharing requirements, the implications for certain Canadians may be significant:

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[301] Based on data from Statistics Canada, *Survey of Household Spending*, 2002.

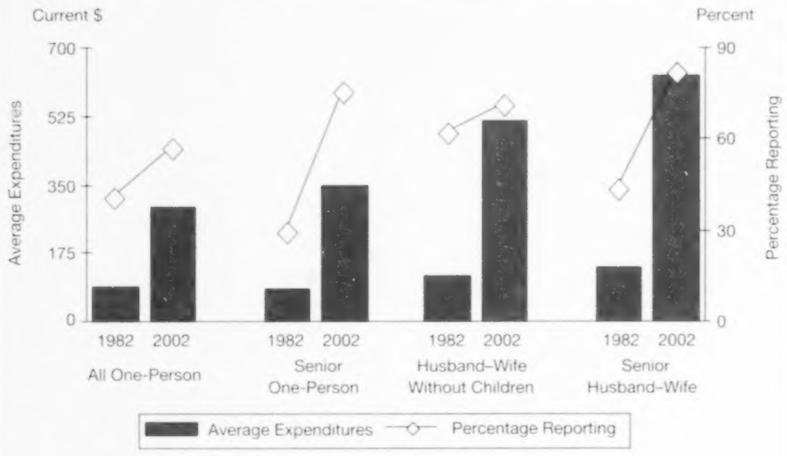
> A Quebec study found that seniors and welfare recipients used fewer 'essential' drugs, experienced more serious adverse events, and had more visits to emergency departments after an increase in cost-sharing for prescription drugs in the mid-1990s (Canadian Institute for Health Information 2003b, 113).

Furthermore, another report noted:

> Of particular concern is the growing cost burden of drugs for near-seniors, people 55–64, who have increasing health problems requiring medication but who are not covered by either public or private drug insurance plans (National Advisory Council on Aging 2003, 9).

FIGURE 9.23

Prescribed Medicinal and Pharmaceutical Products, Average Household Expenditures and Percentage of Reporting Households, Senior Households, 1982 versus 2002



Source: Statistics Canada, FAMEX (1982) and SHS (2002).

As for other (non-prescribed) medicinal and pharmaceutical products, these expenditures for reporting households averaged $180 in 2002, compared to an average of only $48 in 1982. This represents an average annual growth rate of 6.9 percent, versus 3.8 percent for the non-prescribed medicines component of the CPI from 1985 to 2002.[302] While smaller in dollar terms, spending on non-prescribed medicinal and pharmaceutical products has hence increased at a similar pace as for prescribed products.

The growing scope of choice available in this market may be a contributing factor to the apparent real growth in spending:

> It is also possible that consumers are spending more on over-the-counter products such as cold and flu medications, as well as vitamin and herbal remedies — all now available in a vast selection (Chaplin and Earl 2000, 63).

Attitudes to self-medication have also likely changed. More highly educated Canadians seem less likely to think that it is best to consult a doctor before taking any medications, even those not requiring a prescription.[304] With an aging population, another factor may be the growing role of family caregivers, as 71 percent report out-of-pocket costs for family members' non-prescription medicines (see text box) (Decima Research Inc. 2002).

Health insurance premiums[306]

Data on health insurance premiums suggest that their share of the average health care budget fell in the 1980s and early 1990s, but rose again more recently (see Figure 9.20). Part of this trend can be linked to changes in the percentage of households reporting expenditures on health insurance premiums. This share stood at more than half (55 percent) of Canadian households in 2002, down significantly from 63 percent in 1982, but up from 47 percent in 1997. When adjusting for reporting ratios, the average expenditure per reporting household still grew relatively quickly, at an average annual rate of 6.0 percent from 1982 to 2002. A number of factors may be linked to a rise in out-of-pocket expenditures on health insurance premiums:

- the ineligibility of certain workers for employer benefits (part-time, contract workers, small business operators) and hence the need to purchase private coverage;

Consumer protection in the natural health products sector

Higher household spending on non-prescription products may in part reflect an increasing use of alternative, over-the-counter products such as natural health products. It has been estimated that the gross income of the natural health products market ranged between $1.5 billion to $2 billion dollars in 1997, with annual growth of 10 percent to 15 percent (Report of the Standing Committee on Health 1998). In the past, natural health products were not subject to any controls, but the federal government announced in 2003 the adoption of the Natural Health Products Regulations.[303] The new regulations require a product licence for all natural health products, which will be reviewed for safety and efficacy, and subject to a new labelling regime requiring:

- directions for use;
- the recommended use (or health claims); and
- a listing of all ingredients along with clear and understandable warnings.

The new regulations will provide consumers with better information and aid them in making more informed purchasing decisions.

The costs of caregiving in an aging society

One aspect of health care is receiving considerably more attention today:

> In North America today, the aging population, coupled with fundamental changes in the provision of health care services, is translating into an increased requirement for individuals to care for family members in the home who have chronic health problems or disabilities (Decima Research Inc. 2002, 1).

A 2002 survey revealed that about 4 percent of adult Canadians (or about 933 000 individuals) are currently assuming the role of family caregivers.[305] More than half (57 percent) of the recipients of this care were 65 years of age and older. The survey revealed that 44 percent of family caregivers are paying out-of-pocket costs to provide care for their family member in the home. Of the people incurring costs, 40 percent reported spending between $100 and $300 per month on such expenses, with another 24 percent spending in excess of $300 (Decima Research 2001).

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[302] Statistics Canada, CANSIM, series v737548 data are only available starting in 1985.

[303] Products falling within the Regulations include herbal remedies, homeopathic medicines, vitamins, minerals, traditional medicines, probiotics, amino acids and essential fatty acids (such as Omega-3). Source: Health Canada 2003c.

[304] Only 42 percent of respondents with completed university education agreed with the statement, compared to 69 percent of those with less than high school. Source: Ipsos-Reid 2001.

[305] A caregiver is defined as "an individual who is currently providing care to another family member in their home (or their family member's home), who has a physical or mental disability, is chronically ill or is frail (excluding short-term care involved in injuries or illness)." Source: Decima Research Inc. 2002, p. 1.

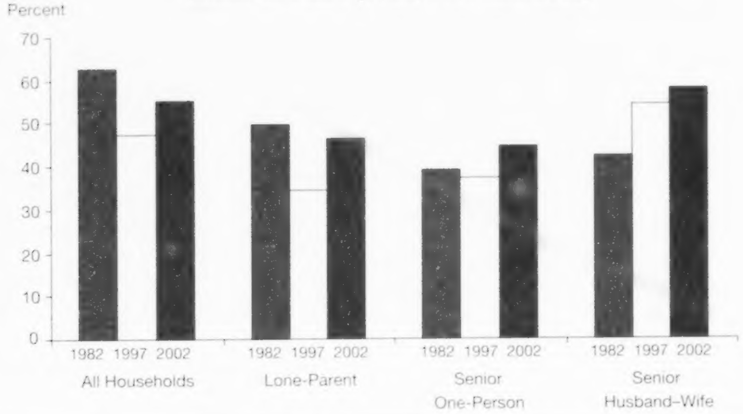
[306] "Spending on health insurance premiums includes payments for provincial (that is, public- or government-sponsored) health/drug insurance plans (where applicable) and private health insurance plans, including dental benefit plans and accident/disability insurance." Source: Chaplin and Earl 2000, 61.

- policies of certain company plans that, upon an employee's retirement, stop funding benefits or require individuals to co-fund benefits; and
- changes in the coverage provided by certain provincial health insurance plans (Chaplin and Earl 2000, 62).

Health insurance premiums are the single most important component of the average health care expenditures of households in the middle and highest income quintiles. Households in the lowest income quintile, for their part, are much less likely to report spending on health insurance premiums. This may explain in part why their out-of-pocket expenditures on prescribed medicinal and pharmaceutical products are higher. From 1997–2002, the reporting of expenditures on insurance premiums rose the most (in percentage points) for lone parents, which may be linked to higher employment. As for seniors, they are the only household types to be more likely to report spending on insurance premiums in 2002 compared to 1982 (see Figure 9.24).

FIGURE 9.24

Percentage of Households Reporting Health Insurance Premiums, by Selected Household Types and Selected Years (1982, 1997 and 2002)



Source: Statistics Canada, FAMEX (1982) and SHS (1997, 2002).

Dental and eye care

The *Canada Health Act* covers only dental-surgery services provided in hospital. Provinces and territories can provide supplementary health benefits such as dental care to certain targeted groups (e.g. seniors, children, welfare recipients). It remains, however, that the vast majority of dental services are paid for through private funding. The latter is shared relatively equally between employer-provided insurance coverage (56 percent of private dental care spending) and by individuals

(44 percent) (Canadian Institute for Health Information 2003b, 35). A 1998 report concluded that 59 percent of paid workers were covered by extended dental plans:

> Moreover, workers who enjoy the most financial security today (the permanent, full-time, unionized, senior high-wage earners — those with 'good jobs') are the most likely to have extended … dental coverage (Reesor and Lipsett 1998, 30).

With respect to households' out-of-pocket spending on dental services, its share of the average health care budget was 18 percent in 2002, down from 23 percent in 1982. About half of households (48 percent) did not spend on dental services in 2002. While some may be covered by dental plans, it is also known that many Canadians only use dental services on an as-needed basis (i.e. they forgo regular checkups) (Chaplin and Earl 2000).

Contrary to dental care, a majority (80 percent in 2000) of private expenses on eye care comes from out-of-pocket household spending, as opposed to private insurance firms (Canadian Institute for Health Information 2003b). About half (51 percent) of Canadian households reported eye care expenditures in 2002. Eye care represented 13 percent of the average household's health care budget throughout survey years available from the mid-1980s to mid-1990s, but fell to 11 percent in 2002. Practically three quarters (74 percent) of the average household's eye care spending in 2002 was for prescription eye wear.

Research opportunities

As work continues to address the challenges facing Canada's health care system, the role of individuals' out-of-pocket expenditures will need to be carefully considered. For certain Canadians, paying their own way for health care goods and services may already represent a significant pressure in their household budget. Further introduction of technological developments in the health care marketplace may also warrant special attention. Assessing what constitutes balanced and complete information may sometimes be difficult for consumers as they deal with some competition-motivated professionals. With the aging of the baby-boom cohort, it can be expected that a number of new goods and services will be marketed to alleviate the health care problems of these Canadians.

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CONCLUSION

Making Sense of Consumer Trends

In this report we have attempted to present two sides of what is a very complex picture. First, we have outlined how changes in the economy and the marketplace have affected consumers. Second, we have described in some detail how the socio-economic circumstances of consumers have changed. Now, we summarize some of our observations on how these two sides of the consumer picture interact and the implications of this for future analytical work on the state of the consumer.

One strong theme that emerges is that consumers are deeply and very differently affected by how the marketplace has changed over the past two decades. While some consumers have seen their incomes and net worth grow, others have experienced very different — some would argue very polarized — outcomes. Individual factors such as employment status, income, education, age and family structure mean that consumers faced with the same marketplace circumstances experience very different outcomes. The effect is that some consumers have more opportunity and choice in the marketplace than others. Some consumers also have to cope with more risk due to the lack of time or ability to adequately assess options. We elaborate on these issues in the next few pages.

Major marketplace and economic trends

Looking first at economic and marketplace change, a few major trends are evident. Strong economic growth, more open markets and high levels of technological change have produced significant benefits for consumers over the last two decades, which have also featured higher average incomes, on the whole. These changes have produced less expensive, more reliable and more convenient goods and services, and the speed with which new products and services diffuse and grow in the marketplace is certainly bringing benefits to consumers at a rapid rate. However, keeping up with these changes and learning how to adapt to them, and benefit from them, is a major challenge for consumers. The skills that they develop to use many technologically complex goods and services can quickly become outdated.

The deregulation and opening to competition of formerly regulated markets, such as financial services, or energy and telecommunications utilities, has brought more options and choice to consumers, but also greater challenges for them in sorting out marketing claims and the potential costs and benefits of these service offerings.

In essence, the modern consumer marketplace is becoming an information-intense, complex and radically changed place. Knowing how to process large volumes of information and understanding the implications of what can be very complex product and service offerings or transactions are important skills for today's consumer.

Social and economic change among consumers

The social circumstances of consumers are also undergoing significant change. Not only is the demographic bulge of the baby-boom generation leading to a much older population, with different consumption requirements, but traditional family structures are also changing, with fewer children, a larger proportion of two-parent families in which both parents work, more lone parents and more people living on their own. Many consumers in these groups, particularly two-parent working families, and especially lone parents, have significant time management issues and may have difficulty finding the time to cope with the quantity and complexity of the marketplace information they need to assess.

Consumers are becoming more culturally diverse and more urban. Vancouver, for example, is now one of the world's most culturally diverse cities, as it has seen the proportion of foreign-born jump from 30.1 percent of its population in 1991 to 37.5 percent in 2001. The challenges and opportunities this presents are obvious: businesspeople are developing new products and services to respond to varied cultural needs, and perhaps benefiting from significant export possibilities; but there are also major challenges in how to protect a less culturally and linguistically homogenous consumer population.

While Canadian consumers are increasingly well educated, the knowledge and sophistication required to meet the challenges of a 21st century marketplace are also increasing. At the same time, significant numbers of Canadian consumers have difficulty understanding the complex information needed to assess the value and risks associated with many important consumer products and transactions, particularly those involving financial and other important service contracts that require high literacy and numeracy skills. For example, four out of ten Canadians between the ages of 16 and 65 do not meet the minimum desired threshold of literacy skills, experiencing significant challenges when trying to complete a basic task such as extracting information from a typical bus schedule.

Consumers' personal after-tax incomes have significantly improved in recent years, but it is clear that income distribution is becoming more polarized, which in turn means that the economic opportunities and challenges consumers face are becoming more varied. For example, income growth has been disproportionately concentrated in upper-income families, while the net increase in the incomes of lower income groups has been much less marked. And those consumers in the lowest income quintile are spending more than half their income on the basics of food, shelter and clothing.

In terms of assets, a significant determinant of consumer net worth may be home ownership, a form of self-imposed saving and, at least in recent years, an appreciating asset. In contrast, consumers who are renters seem to experience significantly reduced opportunities to build their net worth. In contrast, debt and the ability to manage it is an issue for many consumers. Net indebtedness has been steadily growing, with debt-to-income ratios rising in the last 20 years, from 75 percent to over 100 percent of annual income. The rapid growth of unsecured debt, which can also be expensive debt to service, is particularly disturbing, especially when it exists among consumers with few tangible assets.

The varying effect of social and economic change

What is critical to assessing the current state of the consumer is not simply describing how various trends in the marketplace or changes to the socio-demographic circumstances of consumers have evolved, but to show the interplay between the two on specific groups of consumers. It is here where we see how factors can interact with each other to produce effects that magnify the benefits or challenges that certain groups of consumers face today. A few illustrative examples of this kind of analysis, which are not meant to be comprehensive, follow. As will be clear in the descriptions below, while these demographic categories share a number of common traits, there can also be significant differences among consumers within each of these categories.

The senior consumer

Seniors are a growing category of the population who, due to their increasing numbers and wealth accumulation, are likely to be able to exercise growing power in the marketplace. We are likely, therefore, to see the emergence of new products and services tailored just for them. Elderly families are generally much better off than they used to be.

Today's seniors are more likely to be living on their own and may be less able to count on daily family support. They have to make many complex and potentially unfamiliar financial and purchasing decisions on their own.

As a group that is already very susceptible to fraud and unscrupulous marketing ploys, seniors may also be a very vulnerable consumer group in the future. In addition, many services they increasingly rely on either because of failing health and/or the lack of family support (e.g. market-purchased medical services) can be expensive.

Rapid technological change that is characteristic of today's marketplace produces a number of challenges for senior consumers. While many new products and technologies are responding to seniors' needs — such as new and more sophisticated assistive devices that can facilitate independent living — a lack of familiarity with, and reluctance to use, new technologies (e.g. electronic banking or new self-service facilities in retail outlets) significantly reduce seniors' ability to benefit from many of these new technologies to the same extent as the general population.

The pre-retirement consumer

In general, this consumer group is well placed to take advantage of the opportunities presented by a rapidly changing, knowledge-intensive marketplace. With grown-up families and smaller mortgages, this group tends to have significant disposable income. At this stage of life, consumers frequently look to "big ticket" items such as travel or home renovations, items that have traditionally been the subject of many consumer complaints.

For these consumers, the diversification of products in the financial services market has been particularly beneficial, given their financial status. They are also, therefore, more likely to encounter difficulties associated with complex investment decisions. While they are financially able to access advisory services (for example, investment counselling), this also means that they can be particularly vulnerable to poor financial and investment advice.

Two-parent families with dependent children

This group tends to be better educated than previous generations, with reasonably good skills for navigating the marketplace. On the whole, these consumers experienced average or better income growth in the late 1990s, a trend driven by the growing proportion of dual-earner families. Since they are at a stage in life when buying a home is important, many may have benefited from low interest rates to enter the housing market and thus have at least started to accumulate positive asset balances.

However, with both parents working, they often have to cope with a high cost of living, due to the need to purchase services such as child care and meals outside the home. They may also face commuting costs such as running two automobiles. Like lone-parent consumers (see below), this group is also under severe time pressure, due to the need to maintain two careers and care for young or school-age children.

For older parents with adolescents, managing post-secondary education costs is a major concern, as is time stress resulting from being a "sandwich generation" — supporting elderly parents as well as their adolescent children. This means little time to deal with the marketplace and fewer financial resources with which to buy advice — a situation that can make these consumers particularly vulnerable to long-term money management mistakes. The fact that this group has experienced a decline in net worth over the last 20 years adds to these concerns.

The consumer as lone parent

Consumers in this group have at least one dependent child. They face many of the challenges of the consumers in two-parent families, but with fewer resources to cope.

While income growth for lone parents has been strong in recent years, they are nevertheless much more likely to be in the lower income quintiles and are far more likely to be spending the bulk of their income on the basics of food, shelter and clothing, with reduced discretionary spending.

They are also more likely to find themselves in arrears with respect to bill payments. And, since they are less likely to be home owners, they have significant problems building up an asset base. As a result, much of their debt tends to be of an expensive non-secured type.

Time stress for this group is an obvious problem, given the daily difficulties of trying to raise a family alone. This makes assessing marketplace choices in any thorough way difficult. This situation is compounded by limited income, which does not allow lone-parent consumers the financial latitude to buy services or convenience products that would give them the time to better assess complex purchases and manage their personal finances.

Those lone-parent consumers who are not able to afford private transport often face the added difficulty of not having the mobility to shop around to get the best prices or access the large retail complexes (e.g. big box power centres) that offer wide product selection and low prices.

Young adult consumers

On the whole, young adults are well educated, media savvy and technologically literate, and are most likely to be at ease with, and feel able to navigate, the knowledge-intensive high technology marketplace.

But young adults just entering the marketplace are making major purchases with much higher pre-existing debt loads than the previous generation's, in particular due to high student debt. These high debt levels and long periods in post-secondary education also make it difficult for this group to establish new households; as a consequence they are starting their process of asset accumulation at a later point in their lives than in the past. The proportion of 18–28-year-olds still living with their parents has almost doubled, from 28 percent in 1981 to 48 percent in 2001.

As the above shows, the range of issues the various consumer groups face is quite broad, and while all consumers face opportunities and challenges in functioning in today's marketplace, the mix of issues is very different depending on the group. Even within groups, the outcomes can vary significantly depending on individual circumstances. For example, a lone parent's high level of education could significantly alter the outcomes he or she faces (because of likely higher income levels and better ability to understand complex consumer contracts) compared to a lone parent with limited education. Likewise, a two-parent family with children that recently immigrated is not likely to face the same economic opportunities, or to cope as easily when interacting with the marketplace, as other two-parent families.

The consumer trends research challenge

Throughout the *Consumer Trends Report*, we have identified a number of opportunities for research to further the analysis of what is happening to consumers and today's marketplace. But the report can only provide a brief overview of the emerging issues. It is clear that there are many gaps to be filled, both to improve the data currently available and to develop new sources of information. There is also a significant secondary research agenda that needs to be addressed to interpret the data and assess their meaning.

One particular opportunity may be to develop a core set of consumer indicators that could track how well consumers are faring in the marketplace over time, and that could form a set of lead indicators of emerging issues. As such, these indicators could cover not only social and economic trends affecting consumers, but also trends in the performance of the marketplace; for example, reporting on complaints trends.

Apart from the question of more primary and secondary research, there is the important question of the focus of that research effort. In the course of this report we have stressed the need for a better understanding of a number of social and economic variables that affect consumers, including, simply by way of example, such important issues as the following:

- With respect to how the economy and the marketplace impact consumers:
    - What is an effective level of competition in the marketplace that is necessary to protect the consumer interest, given the growing size and scope of large retail conglomerates?
    - With services constituting a growing share of consumer spending, can consumers effectively assess the value and risks of service offerings, given the complex conditions and variety of contracts that surround their delivery, and the fact that services are intangible and often difficult to assess until they are used?
    - In what ways have new technologies improved consumer welfare, particularly in terms of how they change what is offered in the marketplace and the way goods and services are marketed and sold?

- With respect to the social and economic circumstances of consumers:
    - How well are consumers handling their finances and avoiding financial difficulties, given the growing number and variety of debt financing instruments available?
    - How well are both "have" and "have not" households faring, given that the ability to manage in the new marketplace is increasingly not only a question of income but also of other important social resources, such as education and literacy, and having the time to make meaningful decisions?
    - What changes to the marketplace can be expected to address the growing aging population and what new consumer protection issues will arise?
- With respect to how consumers function in the marketplace:
    - What information is, and should be, available to consumers to allow them to make decisions that further their own welfare and protect their interests? How can such information be made both more understandable and accessible?
    - To what extent do consumers have the ability to obtain effective redress in today's marketplace? Do consumers have sufficient ability, and the instruments at their disposal, to voice their concerns individually and collectively when they feel their interests have been compromised in the marketplace?

The above list is far from exhaustive, and part of the challenge of creating a consumer research agenda, apart from the need to engage a wider variety of stakeholders and to do more work, is to come to some consensus on what are the priority areas for research and what are the key research questions.

Afterword

We have included this short Afterword in order to outline some of the methodological and priority-setting issues for the research community that were raised by our Advisory Committee and participants at the Symposium on Consumer Trends and Research held in June 2004.

As discussed briefly in the Introduction, this initial *Consumer Trends Report* took a fairly straightforward economic and demographic approach to researching consumer issues, and restricted the scope of the analysis to the principal social and economic trends. This was felt appropriate for a first-time document whose emphasis should be on providing baseline economic and social data relevant to consumer issues, and on identifying where gaps exist in available data and research. In this Afterword we briefly review analytical options and priorities and their implications for future reports and research work in this area.

Analytical frameworks

A theme that emerged from the Symposium was the value of applying multiple analytical or theoretical frameworks to consumer research issues. Each one brings its unique set of perspectives, and provides very different insights on the relationship between consumers and the marketplace. A few of these approaches include:

- *Behavioural economics,* which seeks to predict how consumers may react to certain market conditions, using evidence from game theory and insights obtained from sociology, psychology and anthropology on issues such as social conventions, norms and values. Such research and perspectives can be useful in exposing why and how traditional market mechanisms or policy instruments, which are supposed to protect or further the consumer interest, do not function in the way they should.
- *Consumer rights perspective,* which takes as a given that consumers have certain rights in the marketplace, and assesses how well those rights are protected or furthered, either by the structure of the marketplace itself, or the institutions which govern it. Perhaps the best known example of a statement of consumer rights is the United Nations Declaration on Consumer Rights ratified by the General Assembly in 1985.
- *Institutional/legal analysis,* which studies the impacts of institutions and legal systems on the nature of the interaction between consumers and the marketplace.
- *Industrial organization analysis,* which looks primarily at how the private sector is organized and the implications of this for how the marketplace functions. In particular, this kind of analysis gets to the heart of the character of competition in the marketplace among industrial players, and how, or whether, consumer interests are integrated into private sector decision making.

It should be stressed that none of these approaches are mutually exclusive, and only an illustrative few have been listed here. Indeed, there is considerable benefit to be gained from applying simultaneously a number of different analytical perspectives, as this can provide a much richer and more complete description of the reality facing today's consumers.

Setting priorities

In the course of our discussions with participants at the Symposium, the issue of setting priorities, for both research and action, was frequently raised. Every organization — governmental, non-governmental, academic or business — faces difficult choices about where to devote limited resources. All actors have to make these choices based on their own capabilities, resources, and responsibilities or interests. Clearly, having a broadly based set of analytical perspectives will help to ensure that the choice of priorities is well founded. Developing clear rationales or frameworks for making analytical and policy choices is, therefore, a major issue that needs to be addressed in the future.

Scope of coverage

This initial *Consumer Trends Report* was, of necessity, focussed on a number of key variables, principally associated with structural trends in the marketplace (industrial organization analysis), the socio-economic forces shaping the character of consumer demand, and the ability of consumers to pursue and protect their interests in the marketplace.

This report has not addressed a variety of issues that nonetheless have a major impact on the state of the consumer in the marketplace. These issues include:

- the nature, role and effectiveness of both public and private institutions and policies in protecting and empowering consumers;
- the character and effectiveness of the consumer and public interest movement;
- the nature of competition in the consumer marketplace and the business strategies companies deploy that affect consumers' access to goods and services and the exercising of their rights in the marketplace; and
- the changing attitudes of consumers themselves to the marketplace, and indeed the very act of consumption itself (consumer as lifestyle, values-based consumption).

Looking ahead it would be advisable for researchers from government, business, academia and the non-governmental organization community to make decisions on analytical frameworks and the scope of coverage for future work in the area of consumer trends. The Office of Consumer Affairs will be encouraging all stakeholders to become engaged in these discussions and in discussions on the analytical perspectives that need to be developed to further the research agenda for use in their own work and in future editions of the *Consumer Trends Report*.

APPENDIX

Technical and Methodological Issues

Consumer Price Index

Statistics Canada and its predecessors have been publishing consumer price indices since early in the 20th century. The current Consumer Price Index (CPI) is obtained by comparing through time the cost of a fixed basket of commodities purchased by consumers. The weight given to the data for each commodity included in the Index is principally derived from various periodic family expenditure surveys.

The CPI is often used to eliminate the impact of inflation in time-series data (or, in other words, to convert time-series data from current to constant dollars). It is worth noting that the CPI is not a cost of living index, but rather is based on average price changes for a fixed basket of goods over a given period, in a given geographical area.

Some caution must be exercised with respect to the use of CPI information. A change in the quality of a service, for instance, may affect its price and hence its contribution to movement in the CPI. Statistics Canada has made great strides overcoming this limitation, but researchers must remain aware of the constraints, given that the problems encountered in adjusting prices for quality changes are complex and sometimes impossible to solve in a fully satisfactory manner.[1]

A further limitation of the CPI is apparent in Chapter 9 on consumer spending, that is, the inability to use the CPI components to directly deflate the detailed spending categories in the Family Expenditure Survey (FAMEX) (now called the Survey of Household Spending and the Food Expenditure Survey). This problem arises because the goods and services used to determine the CPI are not always the same as those covered by the Family Expenditure Survey. Statistics Canada provides this caution:

> The commodities (goods and services) represented by the CPI are the commodities that can be associated with a retail price, i.e., with the amount of money that a consumer must pay to purchase a specific quantity and quality of a good or service. Because of this restriction, it is possible to compute the CPI as a measure of price movement related to commodities of unchanging or equivalent quantity and quality. Family expenditure

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[1] "For example, it is fairly easy to monitor changes in bus ticket prices. But, how would you attach a dollar value to the changes in the frequency or punctuality of the bus service? A change in the quality of that service may well have contributed towards a change in the bus ticket prices." See Statistics Canada 1996: 7.

surveys, from which the CPI basket is derived, do not follow the restriction; hence their commodity coverage is broader than that of the CPI (Statistics Canada 1995, 5).

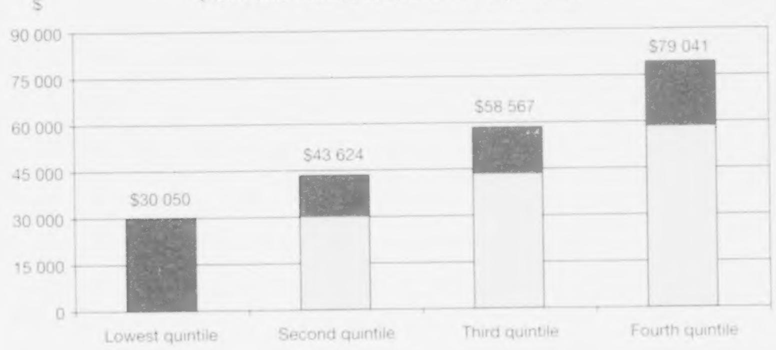
Consumer income: analyzing after-tax family income using quintiles

As demonstrated in Chapter 5, quintile analysis is often used to draw conclusions about the relative situation of people at either end, or in the middle, of the income scale. The quintile analysis in this report is based solely on families using after-tax income. To determine these groups, all economic families are ranked from highest to lowest after-tax income. These families are then divided into five equally sized groups. Hence, the same quintile definition is applied to the population for each year studied, which keeps the size of each quintile group constant, although the economic families per se will not be the same ones in a given quintile across all years (see Figure A.1).

FIGURE A.1

After-Tax Income Range and Upper Limits, 2001

(Economic families of two of more persons)



Source: *Income Trends in Canada* (Statistics Canada CD-ROM, 13F0022XCB, Table 6.04).

Plotting the upper limit of each quintile gives the range of after-tax family incomes that make up each group. For example, the middle (family) quintile had after-tax incomes ranging from $43 642 to $58 567 in 2001. The highest (family) quintile, on the other hand, had after-tax incomes of $79 041 and above. Confidentiality restrictions prevent the publication of the upper limit for the highest quintile, which represents the economic family in Canada with the highest after-tax income.

Statistics Canada's low income cut-off (LICO)

The low income cut-off (LICO) is a measure developed by Statistics Canada to convey an income level at which a family may be in difficult economic circumstances because it has to spend a larger proportion of its income on necessities than does the average family of a similar size. For example, the most recent base for the LICO is the 1992 FAMEX, which found that the average spent on food, shelter and clothing by all households was 43.6 percent of after-tax income.[2] In this instance, the income at which a typical family spends 20 percentage points more — 63.6 percent — of its after-tax income on the three necessities is set as the LICO. In 1992, the income level at which a family of four living in a city of 30 000–99 999 people spent 63.6 percent of its after-tax income on food, shelter and clothing was approximately $21 300. This figure is set as the after-tax LICO for 1992. Several LICOs are calculated in order to factor in differences in family sizes (as larger families need more income to meet their needs) and community sizes (to account for differences in the cost of living). The LICOs are updated annually using the CPI. It is worth noting that the relationship between spending and income is only used to produce the LICO threshold; low-income status is then determined by comparing the family's income to this threshold. For example, using the above 1992 threshold for a family of four living in a city of 30 000–99 999, a family spending 90 percent of a $60 000 income on food, shelter and clothing would **not** be counted as low income (i.e. since the LICO is set at $21 300), whereas a family that spends 50 percent of a $20 000 income would be (Statistics Canada 2001, 9).

Sources of net worth (assets and debt) data

Survey of Financial Security

Chapters 6 through 8 present information on the assets, debts and net worth of Canadians. The source of most of this information is the Survey of Financial Security (SFS). The SFS was conducted between May and July, 1999, and collected information on the assets and debts of families and unattached individuals. The SFS was conducted in the 10 provinces, with those living in the territories excluded. Furthermore, other segments of the population (e.g. those living on reserves, inmates of penal institutions, etc.) were excluded. Statistics Canada states that the survey covered 98 percent of Canadians living in the 10 provinces.

The results in this report on assets, debt and net worth that are attributed to Statistics Canada are primarily based on Cat. No. 13-595 (for net worth) and custom tabulations (for assets and debts). Note that the value of pensions (for those who belong to, or once belonged to, a pension plan provided by their employer) is *excluded* from the majority of the results. Some information on pensions is provided in Chapter 6 and Chapter 8, and is based entirely on Statistics Canada Cat. No. 13-596.

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[2] Statistics Canada publishes both before- and after-tax LICOs. When selecting a measure, Statistics Canada notes that one consideration may be that goods and services are purchased with after-tax dollars. After-tax LICOs were used in this study.

Unless otherwise stated, all time-series comparisons are based on data for 1999 that have been adjusted to make them comparable to data for 1984 (the last time Statistics Canada conducted a wealth survey). The adjustment — proposed by Statistics Canada — is necessary because certain assets (i.e. contents of home, collectibles and valuables, and annuities and registered retirement income funds) included in the 1999 survey were not included in the 1984 survey (and hence, these assets have to be removed to make the two series comparable). Furthermore, all net worth, asset and debt information is expressed in constant 1999 dollars.

The SFS collected information for the family unit and not for each individual in the family. Hence, the term family unit includes both economic families (which accounted for approximately 68 percent of family units in 1999) and unattached individuals (which accounted for approximately 32 percent of family units in 1999). The definition of economic family is consistent with that provided in Chapter 5 on consumer income.

Finally, the chapters on assets, debt and net worth feature data based on median values (i.e. as opposed to average values). This is recommended by Statistics Canada, since those in the highest net worth decile hold a relatively large proportion of net wealth. This has a substantial impact on the calculations: in 1999, average net worth in Canada is approximately 2.5 times higher than median net worth. Median values better reflect the net worth of Canadians in the middle of the wealth distribution (as they are less affected by extremely high or low values).

Variables received from Equifax Canada

OCA obtained data from Equifax on four key variables: credit files, tradelines, credit balance and credit limit. This information was disaggregated by loan categories (defined below), age groups and credit ratings. A tradeline represents one financial obligation held by a consumer. A consumer's credit file contains all tradelines for that particular consumer. The credit balance represents the total amount owing on a particular tradeline. The credit limit represents one of two things: for an instalment loan, the credit limit is equal to the original amount of the loan (i.e. for a car loan, the credit limit equals the face value of the car loan until the balance is paid off), while for a revolving loan, the credit limit is equal to the maximum amount of money that can be drawn against it (i.e. for a credit card, the credit limit is equal to what is traditionally viewed as a credit limit — the maximum amount that a consumer can borrow off the card).

Equifax's database only provides details on consumers' short-term credit (i.e. it excludes data on mortgages). More specifically, the database captures instalment loans (i.e. bank loans, finance company loans, automotive sales finance loans) and revolving loans (i.e. national credit cards, department store cards, other retail cards and other revolving credit). Each financial obligation incurred by a consumer (e.g. a bank loan, a credit card transaction) is recorded as a separate tradeline.

Each bit of credit history in an Equifax credit file is assigned a credit rating by the credit grantor. OCA obtained tradeline data broken down by North American Standard Account Ratings:

"Good" credit ratings

R0: Too new to rate; approved but not used.

R1: Pays (or paid) within 30 days of payment due date or not over one payment past due.

"Minor Delinquent" credit ratings

R2: Pays (or paid) in more than 30 days from payment due date, but not more than 60 days, or not more than two payments past due.

R3: Pays (or paid) in more than 60 days from payment due date, but not more than 90 days, or not more than three payments past due.

"Serious Delinquent" credit ratings

R4: Pays (or paid) in more than 90 days from payment due date but not more than 120 days, or four payments past due.

R5: Account is at least 120 days overdue, but is not yet rated "9."

"Serious Delinquent, Action Taken" credit ratings

R7: Making regular payments through a special arrangement to settle debts.

R8: Repossession (voluntary or involuntary return of merchandise).

R9: Bad debt; placed for collection; moved without giving a new address.

In the above credit ratings, the concept of "pays (or paid)" is for the agreed amount that *must* be paid. For example, if a consumer pays their "minimum payment" amount on a credit card (within 30 days of the payment due date), this tradeline will be assigned an R1 rating, even though there remains an outstanding balance on the credit card.

Sample

The data received by OCA were based on a 5.2 percent[3] random sample of active tradelines (i.e. activity within the last 12 months) in Equifax's database. A sample was drawn from July 1992, 1997 and 2002.

Coverage

Equifax's database includes the major financial players within each loan category as described above, with the exception of Desjardins. Prior to 2000, Desjardins only reported "bad" tradelines (R2 to R9) to Equifax. Since R0 and R1 information is not available for 1992 and 1997, Desjardins was removed from the sample to generate a more consistent time-series.

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[3] Equifax Canada advised OCA that this sample size was sufficient to generate reliable estimates.

Limitations of Equifax data

Ideally, if one wishes to specifically analyze the financial situation of a *consumer*, the most appropriate indicator is the "credit file" variable, which contains the complete assortment of a consumer's outstanding obligations. To obtain information by credit rating, the Equifax data were drawn at the individual tradeline level. Equifax was able to provide OCA with the corresponding number of credit files that these tradelines were based on. However, due to a number of concerns (outlined below), OCA determined that the "credit file" variable does not provide an accurate representation of the adult Canadian population.

For example, one notable concern of OCA is with respect to the fragmentation of credit files within Equifax's database. Fragmentation occurs when tradelines from one specific consumer get mapped to more than one credit file. This may occur for a variety of reasons. For example, when people use multiple addresses (such as for work and home) for different credit accounts, it is possible that a credit file may be set up under both. A similar situation may occur when it is not easy to distinguish between a first name and a surname. Furthermore, a recently married person who changes his or her name could potentially have a credit file set up under both the current and former surname. It is worth noting that fragmentation of tradelines between multiple credit files has no impact on the aggregate credit balance or aggregate credit limit for various financial products. However, because fragmentation *overstates* the "true" number of credit files, any average created using the credit file variable (in the denominator) will be *understated*.

In this report, *aggregate* Equifax data (i.e. total outstanding balances and total credit limits) have frequently been adjusted by relevant population data (from Statistics Canada) to generate average values per adult Canadian. Recall that file fragmentation biases the "credit file" variable but has no impact on the outstanding balances and credit limits. Also note that the all-items consumer price index was used to present all monetary figures in 2002 dollars.

Sources of household spending data

Chapter 9 on consumer spending is primarily based on data from Statistics Canada's Family Expenditure Survey (FAMEX 1982, 1986, 1992) and Survey of Household Spending (SHS 1997–2002).[4] Statistics Canada's *Spending Patterns in Canada* (Catalogue No. 62-202) has also been used. Recall that the family expenditure surveys cover a broader basket of commodities (goods and services) than does the CPI.

As shown in Figure A.3 of this appendix, household spending data are broken down according to 17 main spending categories. Statistics Canada only produces detailed FAMEX and SHS spending tables in current dollars.[5] Therefore, unless otherwise noted, figures presented in Chapter 9 are in current dollars.[6]

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[4] The 2002 SHS (released in December 2003) contains the most recent data available at the time of writing.

[5] At the time of publication, Statistics Canada was in the process of preparing a research paper dealing with the issue of using CPI information as a deflator for household spending data. Any subsequent proposal from Statistics Canada will need to be taken into consideration in future consumer research that uses the spending data.

[6] Complete conversion of all data into constant dollars was not attempted in light of various differences between the CPI components and the SHS spending categories. In certain instances, however, Chapter 9 provides CPI information as a general indication of price trends.

Due to significant differences between these two surveys, interpreting data on shelter from a time-series perspective is complex. On advice from Statistics Canada, the Office of Consumer Affairs (OCA) did attempt to reconcile the shelter and other data (i.e. to adjust them to take into account differences in the definitions of certain variables between the FAMEX and SHS). Despite these efforts, however, a clear break remained in the data, making interpretation of this revised shelter series unclear. Information on OCA's attempt to reconcile the FAMEX and SHS data, presenting some broad comparisons using adjusted 1982 FAMEX data, is provided later in this appendix. The interpretation of the adjusted shelter variable is judged to be somewhat less difficult for 1982 (see below). The sectoral case studies, however, offer more detailed historical comparisons given that, for spending categories other than shelter, FAMEX and SHS data require fewer adjustments and the time-series are easier to interpret. As a consequence of being unable to create a consistent time-series for shelter (and, consequently, total expenditures), the first two overview sections of Chapter 9 are based exclusively on SHS data (i.e. a time-series restricted to 1997–2002).

The data used in Chapter 9 are based on information collected from private households in Canada's 10 provinces. Detailed spending tables were obtained per income quintile and household type. Figure A.2 presents the main SHS household types[7] used in this report's analysis, structured under two main groups.

FIGURE A.2

Total One-Person Households	Total Husband–Wife Households	
One-person households (65 years of age and older)[8]	Husband–wife households (both 65 years of age and older)	Husband–wife households with children (and without additional persons)[9]
	Husband–wife households without children (and without additional persons)[9]	Lone-parent households

Two other SHS household types are **not** analyzed, that is, "husband–wife households with additional persons" and "other households." There is a relatively lower degree of homogeneity in the composition of these two groups. Data on "husband–wife households with additional persons" combine information for both those with and without children. "Other households" may include a number of situations.[10] Given the greater lack of homogeneity in the household circumstances captured by these two groups, the related data were considered to be too difficult to interpret.

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[7] While similarities exist, SHS households are not identical to Census households, and hence caution must be used in making comparisons.

[8] Statistics Canada's standard spending table by household type does not provide data for non-elderly one-person households. Information on this non-elderly group can therefore only be inferred by comparing spending trends for all one-person households to that of senior one-person households.

[9] "'Additional persons' include sons, daughters and foster children whose marital status is other than 'single, never-married,' other relatives by birth or marriage, and unrelated persons." See Statistics Canada 2003, 24.

Using the FAMEX database to analyze consumer spending

Significant differences exist between Statistics Canada's FAMEX and SHS.[11] Adjustments were made by OCA to the 1982 FAMEX data, in an attempt to produce a longer time-series from the two data sets. An overview of the changes is presented below. The limitations of the reconciliation, as well as other sources of discrepancies inherent to the time-series, are also identified. Finally, a general comparison is provided for the composition of the average household expenditure, using the adjusted FAMEX data and the 2002 SHS data.

OCA's adjustments to 1982 FAMEX data

The most significant difference between the FAMEX and SHS affects the important category of shelter. The FAMEX includes only the interest portion of a mortgage payment as an expenditure, while the principal portion is attributed to a "net change in assets" variable. The SHS includes both the interest and principal component of regular mortgage payments under shelter expenditures. The FAMEX shelter definition was therefore more precise in differentiating between "pure" household expenditures and spending that resembles an investment. Given Chapter 9's primary concern about where Canadians' money goes, we have used the SHS definition for an overview (1997–2002) of spending patterns.

OCA therefore attempted to adjust the FAMEX shelter data to more closely match it to the SHS definition. The net "change in principal of mortgage" was removed from "net change in assets" in FAMEX and transferred into shelter expenditures. This remains an imperfect reconciliation, however, as the net change accounts for more than the principal portion of regular payments. It adds irregular and lump sum payments, net of any money borrowed on the mortgage during the year (the latter, however, was likely small given the high interest rates in 1982). Information using the adjusted data is presented below.

Other adjustments to the FAMEX data involved relatively less significant changes and categories of expenditures. More specifically:

- Complete re-roofing of a house is deleted from shelter expenditures in the FAMEX, as the SHS now includes it under money flows — investments in the home.[12]

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[10] "Other households may be broken down into households composed of relatives only and households having at least one unrelated person. Relatives may include: sons, daughters and foster children of the reference person whose marital status is other than 'single, never-married'; relatives of the reference person by birth or marriage (not spouse, son, daughter, or foster child); spouse of the reference person who was not present in the household on December 31, 2002; other households having at least one household member who is unrelated to the reference person (e.g. lodger, roommate, employee)." See Statistics Canada 2003, 24.

[11] See, for example, Statistics Canada 2000.

[12] On this point, it is the SHS definition that differentiates between "pure" expenditures and spending that is closer to an investment.

- A gross games of chance category is created in the FAMEX with the lotteries and tickets information available under miscellaneous expenditures.[13]

- Interest paid on personal loans and mortgages for other property is deleted from the miscellaneous category in the FAMEX, as it is now part of money flows in the SHS.

- Other (non-monetary) gifts are deleted from the FAMEX gifts and contributions, given that only money gifts are included in the SHS.[14]

Other limitations of comparisons over time

Independent of the above adjustments, a number of differences remain between the surveys over time. First, a reduction in the number of survey questions limits analysis of spending to the more summary-level data found in the SHS detailed tables. While containing fewer survey questions, however, the SHS uses a larger sample size (for example, the 1997 SHS is about 50 percent larger than the 1996 FAMEX), which can affect the survey's degree of accuracy. While similar questions were used throughout the FAMEX and SHS, variations in actual wording may, however, still influence the results. Furthermore, new products and services have been introduced at various points in time, such as cellular services in 1996. Finally, products may be qualitatively very different today, such as in the case of computer hardware and home entertainment equipment.

A broad comparison of adjusted 1982 FAMEX and 2002 SHS data

At present, an adjusted FAMEX/SHS time-series is not available from Statistics Canada. OCA's adjustments to 1982 FAMEX data represent an alternative to address the main differences between the two surveys, with the variables that are currently available. This information is presented as a way to fill the existing data gap and to provide general indications of how today's household spending varies from 20 years ago. As outlined above, however, the reconciliation between OCA's adjusted 1982 FAMEX data and the unadjusted 2002 data is imperfect.

Based on the adjusted FAMEX data, the average Canadian household spent $27 402 in 1982, compared to $60 090 in 2002. This corresponds to an average annual growth rate of 4.0 percent, slightly higher than the 3.8 percent annual growth from 1997 to 2002.

In terms of the composition of the average household expenditure, one change compared to 1982 is that basic expenditures — food, shelter and clothing — now represent a smaller proportion of the average household's spending (see Figure A.3). Price is one factor behind these trends as, for example, the food and clothing price indices rose relatively slowly over the period. In contrast, personal taxes represent a higher proportion of average household expenditures, and have now surpassed shelter. Transportation expenditures have similarly increased in importance.

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[13] Differences remain, however, as the reconstructed FAMEX variable still does not account for bingos and casinos (found in the SHS). In addition, the FAMEX reports gross expenses while the SHS reports net expenses (i.e. reduces it by the amount of money won).

[14] This is an imperfect reconciliation, however, given that the non-monetary gifts are still included in the SHS, under their respective categories (e.g. clothing gifts are part of clothing expenditures).

FIGURE A.3

Composition of Average Household Expenditures, 1982 Adjusted FAMEX Data and 2002 SHS Data

	1982	2002
Personal Taxes	17.7	20.0
Shelter	20.7	18.6
Transportation	11.9	14.0
Food	15.1	11.1
Recreation	4.6	5.9
Personal Insurance Payments and Pension Contributions	4.2	5.7
Household Operation	4.3	4.6
Clothing	6.0	4.1
Household Furnishings and Equipment	3.5	3.0
Health Care	1.9	2.6
Tobacco Products and Alcoholic Beverages	3.3	2.5
Gifts of Money and Contributions	2.1	2.4
Education	0.7	1.5
Miscellaneous Expenditures	1.3	1.5
Personal Care	1.8	1.4
Games of Chance	0.4	0.5
Reading Materials and Other Printed Matter	0.6	0.5
Total Expenditure	**100**	**100**

Sources: Statistics Canada, FAMEX (1982, adjusted) and SHS (2002).

Appendix References

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